

Real Estate CUSO Closes Mortgage Loop

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Is a full-service real estate CUSO the next logical decision for credit unions? Let's examine if this makes sense. Most credit unions have taken the member refinance boom as far as they could and now that the playing field has become more challenging they need to be looking for something to close the mortgage loop.

What makes more sense than to create or join a full-service real estate CUSO and serve the captive audience every credit union already has...their membership?

Can we make sense of this concept and determine what a handful of forward thinking credit unions already know? If you offered first mortgages to your members over the past seven or eight years you certainly learned and enjoyed the significant financial and member service benefits these loans provide. Given the vast majority of those mortgages were refinances you are now faced with the same challenge every other mortgage lender in the United States faces ... how to originate your share of the smaller purchase money mortgage market?

Credit unions initially wanted to have a first mortgage and a home equity loan of some kind in place and recorded against their member's primary residence. Unfortunately credit unions did not have to work too hard to generate those refinance mortgages and rode the wave of activity for as long as they could. Today refinances are no longer as plentiful as they once were and first mortgage volume and the accompanying income dropped significantly at most credit unions.

Because purchase money mortgages are traditionally Realtor-driven, they are small portion of a credit union's first mortgage business. So what is the credit union to do to garner its share of member purchase money business? If you have not already nurtured or begun to nurture relationships with Realtors serving your marketplace you may believe it is too difficult or even too late for your credit union to be a player in the purchase money market.

Even if you decided to try to develop the Realtor market, does your 2014 strategic plan devote the financial and human resources necessary to introduce and sustain an ongoing effort to build and foster stronger relationships with the Realtors? Realistically speaking your credit union is probably new to the Realtor market and may not really

understand Realtor relationships are not developed very quickly, and unless your plan allows for a protracted effort over time to build these relationships and the accompanying purchase money business, you will not make plan.

This does not by itself mean you do not have the Realtors as a means to keep your credit union in the purchase money mortgage market and help you regain the strong presence in the first mortgage market place you enjoyed during the refinance boom. But it may not prove to be successful quickly enough to satisfy your credit union's needs and expectations.

The refinance boom over the past few years saw credit unions become very capable first mortgage lenders. Unfortunately like all lenders, credit unions face significantly reduced refinance mortgage volume. This makes a full-service real estate CUSO a logical evolution of the credit union involvement in real estate secured lending.

Let's look at the evolution of a purchase money first mortgage. It begins with financing a primary residence and if necessary or financially prudent the refinance of that loan. Credit unions understand refinancing first mortgages but have little experience in originating purchase money mortgages where the cycle typically begins with a Realtor's involvement in the mortgage selection process.

Unless your credit union has a vibrant, well-publicized pre-approval program designed to capture your member's attention at the point of decision (when they are thinking about buying a home) you will usually miss the opportunity to get their mortgage business at point of sale. A few forward-thinking credit unions saw a viable and attainable solution to the purchase money challenge was to either start a full service real estate operation within their credit union or became part of a full-service real estate CUSO.

Creating a real estate operation within your credit union may be too costly and might even be counter-productive at this point in time. However, using the services or becoming a member of a full-service real estate CUSO may not be. They have a captive audience in their membership and have spent years earning their trust by servicing them as they provided an ever-expanding variety of financial services. So why not leverage that earned trust by being able to satisfy your member's real estate needs and offer all of the real estate transaction's services – listing, buying and financing within the walls of your credit union?

This is not meant to over-simplify the effort necessary to create a full-service real estate CUSO but from a business and service perspective consider the benefits to your credit union and members. You provide space in your credit union for your members to conduct business in familiar surroundings with Realtors that work for a credit union-owned company. The driving force behind this type of member-centric relationship is

service and by being able to provide expert advice, competitive products and the personal attention members are accustomed to receiving, the income will follow.

One word of caution, even though some individuals may have purchased and sold a few properties and believe running a successful real estate CUSO is not rocket science, it should be left to the real estate professionals. Remember, by allowing access to your membership and financing products you are entrusting your member relationship, which you have spent years developing, to someone that is not a credit union employee.

So make sure everyone involved in this venture has the same set of values and is dedicated to service. When you perform your due diligence everyone involved in the CUSO should not only have the necessary credentials but also ensure they have a good reputation in the Realtor community.

On the bright side, any successful Realtor is very adept at farming for prospects and when she or he understands the tremendous opportunities presented by being an agent of full-service real estate CUSO; it should not be too difficult to get licensed Realtors interested in becoming a member of the CUSO staff.

Is there a better way to help your credit union and members than to be able to provide all the services when they are about to make, in most cases, the most expensive real estate decisions they face: selling, buying and financing a home?