

IN PRIME CONDITION

CHANGING THE ORIGINATION process is a lot like dieting: Many dream of a slimmer, more streamlined mortgage process, but few actually achieve any tangible results. Paper-intensive and expensive, the typical mortgage origination costs about \$1,800 per loan and produces a paper file more than 2 inches thick.

But Boeing Employees' Credit Union (BECU), Seattle, has now become one of the exceptions to the rule. After implementing technology that reduced direct origination costs from \$1,200 to \$350 a loan and created a whole new experience for members, we set out to convert the rest of the credit union world.

Prime Alliance Solutions Inc., Tukwila, Washington, our partnership with technology leader Dexma Inc., Minneapolis, and Fannie Mae, has caught on faster than the low-carb diet craze. It's now a leading provider of technology-enabled mortgage business solutions for the credit union industry, and is handling one of every four loans originated by credit unions.

In 1998, BECU, the nation's fourth-largest

BY
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credit union with \$4.5 billion in assets, was pretty typical in terms of its mortgage operation. During that year's refinance boom, it took more than two hours to apply for a mortgage, and we could process only three members a day. Although we had a loyal customer base, we were closing only 30 percent to 35 percent of loan applications. Members were practically sleeping in the lobby while waiting for their loan to be processed.

Yet we knew the mortgage relationship was key if we wanted to become the member's primary financial institution. Evidence shows that members who finance mortgages through their credit union use more credit union services than non-mortgage members. We risked losing future business if members found it difficult to get a mortgage from us, and this was contrary to our mission to promote homeownership and provide quality member service.

It was time to put our mortgage process on a new track and create a whole new experience for our members.

A vastly streamlined mortgage lending process is winning over small and large credit unions that in the past shied away from mortgage lending. Technology, coupled with dropping a lot of steps from the application process, is winning converts to the Prime Alliance program. Boeing's credit union is one of the happy converts.

PRIME ALLIANCE IS UNIQUE BECAUSE
WE'RE NOT A TECHNOLOGY COMPANY—
WE'RE A BUSINESS SOLUTION.

Slimming down the required data

Together with our technology partner, Dexma, we set out to create a “member-centric” mortgage origination system. Working with Fannie Mae, we eliminated every bit of unnecessary data from the 1003. Our collaboration with Fannie Mae is critical, because our members are asked for far less information and documentation than if they went through a traditional lender.

Countless hours of research and development became reality in October 2000 when we went live with our new system and rolled it out to our 340,000 members. Members can log on to a consumer direct Web site and fill out a streamlined 1003 form (25 clicks and 10 questions).

The system helps members select the best mortgage rate and provides the estimated closing costs. Within minutes, the member receives an online loan commitment, translated into consumer-friendly terms, along with step-by-step instructions for how to complete the approval process.

When more than 50 percent of all loans were originated through BECU’s online channel (the industry average is still well under 10 percent), we decided that this solution was too good to keep to ourselves. So we decided to create a credit union service organization (CUSO) and make the solution available to other credit unions. Thus Prime Alliance Solutions was born.

Today, BECU and the members of Prime Alliance are originating as many loans as a top-15 retail mortgage lender, according to *National Mortgage News* (SunTrust Mortgage, the No. 15 retail lender on *National Mortgage News’* 2003 Annual Data report, did about \$18 billion in volume in 2003). With more than 70 members, including many that are also CUSOs, Prime Alliance comprises more than 600 credit unions all told. These credit unions originated more than \$23 billion in loan volume in 2003, representing approximately one in every four loans originated by credit unions. CUNA Mutual Group reports that

credit unions originated \$88.2 billion in member first-mortgages during 2003.

Our own experience at BECU has been truly remarkable, but not unique among our Prime Alliance colleagues (see Figure 1).

In Fannie Mae’s Mortgage Focus™ 2003 study (an annual mortgage origination benchmarking study), BECU had the lowest origination costs per closed loan within the Internet/call-center channel—direct

costs are only \$399 per loan. The average was double this—\$798. And during the last year, BECU dropped these costs even lower, to \$350 per loan.

We also had the second-highest number of closed loans per direct full-time equivalent (FTE) and originator, and we close a whopping 78 percent of all applications. As a result, BECU has the second-highest profit margin among Fannie Mae’s Mortgage Focus 2003 Internet/call center study participants—144.72 basis points, based on 2002 data.

Power in partnership

Prime Alliance is unique because we’re not a technology company—we’re a business solution. Yes, we were able to implement the most robust applications in the industry without having to use our precious internal resources. But the real power of this solution is in our partnerships with Dexma, Fannie Mae and our members. We capitalize on the negotiating power of our large and growing membership to negotiate with the vendors (such as credit, title, flood and appraisal companies) involved in the mortgage process, resulting in reduced documentation and lower costs.

Fannie Mae’s commitment to Prime Alliance is significant. In a speech to the National Association of Federal Credit Unions (NAFCU) last September, Fannie Mae Chairman and Chief Executive Officer Franklin D. Raines said, “We believe so strongly in the value of this partnership and its potential to bring more homeownership to more credit union members, that we have extended our relationship with Prime Alliance to the year 2011.”

Reducing the amount of required data had a huge effect on reducing processing time. Less data means less verification, which led to slimmer files, which reduced clutter and file space.

Huge process improvements make it easier for our loan officers to concentrate on the member, rather than completing

Figure 1 Prime Alliance—Sample Credit Union Experience

	Loan Volume (in thousands)			% Closed Loans			Direct Origination Costs/Loan		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
BECU	\$701,000	\$1,083,000	\$1,214,000	66%	84%	78%	\$558	\$399	\$350
Patelco Credit Union	\$364,746	\$405,344	\$536,915	64%	74%	71%	\$905	\$781	\$620
CoastHills FCU	\$36,032	\$44,120	\$56,194	63%	68%	67%	\$906	\$802	\$610
ABECU	\$40,876	\$72,491	\$139,470	74%	66%	94%	\$1,800	\$1,500	\$720
GTE FCU	\$128,755	\$252,324	\$359,841	54%	63%	72%	NA	\$823	\$384
Bethpage FCU	\$141,462	\$314,206	\$720,557	NA	NA	83%	\$814	\$628	\$424
MWFCU	\$29,276	\$119,789	\$134,523	59%	53%	67%	NA	NA	NA

SOURCE: PRIME ALLIANCE SOLUTIONS INC.

paper applications and hand-calculating loan options. Originators can listen closely to member needs, ensuring a better mortgage product fit every time.

Customer satisfaction was greatly enhanced through quick online approvals, and during the latest refinancing frenzy, time and resource constraints were not a problem. One member wrote, "A friend at [a top 10 lender] tells me that loan approvals are running an average of 48 hours. I did mine online through BECU on a Sunday and had an approval in two minutes." Another member wrote, "We have refinanced our house several times. This one with BECU was by far the smoothest and most enjoyable. I was shocked that the amount of paper we signed at closing was less than half of what you get from a regular bank or mortgage broker."

More than half of BECU's closed loans originated from applications taken over our Web site (www.becuhomeloans.org), and nearly one in every three applications is submitted to us outside of normal business hours. While the traditional process required specialization and daily routine work, our approach combines the jobs of originator, processor and underwriter into one position. We have increased each staff member's authority to close loans.

Exercising new ideas

Prime Alliance's members continue to cooperatively develop and participate in the evolution of this platform. We've recently added the ability to send online disclosures (Good-Faith Estimate [GFE]/Truth in Lending Act [TILA]), and now our members can also offer home-equity and home-equity line of credit (HELOC) loans to borrowers through the consumer-friendly site.

In summer 2004 we'll offer Dexma's Emerging Market Toolkit, which enables us to be more effective in lending to Latinos as well as other ethnic groups and nationalities by translating mortgage documents into the borrower's native language. This is very important to credit unions focusing on emerging markets such as Latino borrowers in California, Texas and Florida.

Now that we've brought dramatic efficiencies to the front end of the process, we're working on the back end. Despite the fact that service providers and other partners are critical in fulfilling the loan, most aren't integrated with the lender's system. So we're working to change the relationship with our fulfillment providers (e.g., title, appraisal and flood companies)—from that of vendor to partner. We want to fully integrate them into the mortgage process so that ordering services is a seamless, efficient step that's integrated at the point of origination.

Tonya Coon, vice president of real estate for MidWest Financial Credit Union, Ann Arbor, Michigan, says, "Prime Alliance is the gift that keeps on giving," because we're continually delivering additional benefits. We've come a long way, but we're continuing our regimen of research and development and finding ways to streamline the process even more. In fact, BECU is now testing a new loan fulfillment center from Dexma that will enable us to replace our loan origination system. But that's a story for another day.

Before-and-after stories

BECU's story is far from unique; before-and-after stories

abound within Prime Alliance. Even credit unions that thought they were too small or were intimidated by the process are now offering mortgages and realizing incredible savings. With Prime Alliance, any size or shape of credit union can offer mortgage lending. Following are a few testimonials.

PATELCO CREDIT UNION

After examining the Prime Alliance solution, \$3.3-billion Patelco Credit Union, San Francisco, signed on as Prime Alliance's first official customer, going live in March 2001. Originally chartered to serve members of the Pacific Telephone and Telegraph Co., Patelco now has more than 190,000 members in northern California, in and around San Francisco, Sacramento and San Jose. It is the third-largest credit union in California and the 11th-largest in the nation by asset size, according to Austin, Texas-based Sheshunoff Information Services, a division of Thomson Media.

"Mortgage lending was just idling along, partly because the process was so poor," says Chris Oldag, senior vice president of lending at Patelco. "Thanks to the experienced mortgage team at BECU and partners Fannie Mae and Dexma, Prime Alliance was easy to implement. Our members and staff immediately noticed a difference."

Prior to adopting the Prime Alliance solution, Patelco typically funded between \$7 million and \$10 million per month in real estate loans. Now, Oldag says, "We're ashamed of ourselves if we don't close between \$40 [million] and \$50 million per month." Patelco also experienced very little growth in staffing, and its members are much happier with their credit union mortgage.

"Prime Alliance unlocked our potential and dramatically increased productivity," Oldag says. "Mortgage lending is now the No. 1 loan service of Patelco Credit Union. Mortgage lending accounts for many of our new initiatives in 2004. Prime Alliance has given us a level of flexibility to provide mortgage lending as close as our members' desktops. We continue to see greater acceptance and utilization of this awesome tool."

COASTHILLS FEDERAL CREDIT UNION

"If we can do it, so can every credit union," says Diana Dykstra, president and chief executive officer of \$410-million CoastHills Federal Credit Union, Lompoc, California.

"CoastHills made mortgage loans prior to Prime Alliance, but we weren't very service-, product- or rate-competitive," she says. In 2000, the credit union closed only \$6 million in mortgage loans, serving only those members who were determined enough to seek them out. Now numbering more than 45,000 members, CoastHills changed its name from Vandenberg Federal Credit Union in October 2003 when its new charter allowed it to expand membership beyond the Vandenberg Air Force Base to include anyone who lives, works, worships or attends school in California's San Luis Obispo or North Santa Barbara counties.

CoastHills' experience echoes that of BECU in many ways. After implementing the Prime Alliance solution, CoastHills experienced a 500 percent increase in mortgage business in a single year. But CoastHills is different in one major way. "We're one-tenth the size of BECU," Dykstra says. "Yet Prime Alliance helped us establish a relationship with Fannie Mae

that enables us to be a competitive, direct secondary market lender, just like the big credit unions.”

Before Prime Alliance, many smaller credit unions sold loans to mortgage banks and bank-owned conduits because becoming a direct seller/servicer was a daunting proposition.

“Many credit unions our size and smaller stayed away from the secondary market because obtaining approval was difficult, acquiring systems was expensive and the processes were not user-friendly,” Dykstra says. “Now, Fannie Mae approval takes just days and can be done online. Fannie Mae also helped CoastHills manage interest rate risk. Pricing daily, committing loans and delivering them to the secondary mar-

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ket is now routine.

“Without the new Prime Alliance process, none of this would have been possible. Our members would have continued to go elsewhere for their mortgages. And [along] with their mortgage, we might have lost their other services, too,” Dykstra says.

ANHEUSER-BUSCH EMPLOYEES’ CREDIT UNION

In January 2002, St. Louis-based Anheuser-Busch Employees’ Credit Union (ABECU) wasn’t using an automated underwriting system of any kind to meet the mortgage needs of its 75,000-plus members nationwide. Applications were taken by hand using the standard 1003 mortgage application, then processed and documented in the customary way.

“No question—originating mortgages this way slowed us down,” says Deborah Atherton, vice president of real estate lending at Anheuser-Busch Employees’ Credit Union. “Plus, we weren’t able to reach all of our members because we didn’t have experienced mortgage staff in all of our branches.”

ABECU chose Prime Alliance Solutions to re-engineer its mortgage program, because it knew Prime Alliance would help it reduce documentation and the time it takes to close a loan.

“We really didn’t consider any other solutions; it was one of those ‘meant-to-be’ type of things,” Atherton says.

Prior to Prime Alliance, ABECU’s volume averaged about 55 applications a month. After training the branch staff in its 11-state region, ABECU went live in May 2002. Now, it’s averaging more than 100 applications a month, and its staff is thrilled with the solution.

“It puts them in control—instead of the paper files controlling them, they control the files,” Atherton says.

“The ease of use makes our members and our branches very comfortable with the mortgage process. Online credit decisions take away much of the stress from the members. Our members and our staff both win,” she says. Plus, she adds, ABECU is expanding its product line with Fannie Mae, and is now offering its adjustable-rate mortgage (ARM), higher loan-

to-value (LTV) and affordability products.

GTE FEDERAL CREDIT UNION

West Central Florida’s real estate market is hyperactive, thanks to a growing population. Serving 187,486 members from 1,300 companies in Florida, the \$1.8-billion GTE Federal Credit Union (GTE FCU), Tampa Heights, Florida, adopted the Prime Alliance solution in May 2002.

“Online mortgage lending technology helped us eliminate the origination bottleneck,” says John Shope, manager of mortgage operations at GTE FCU.

“We’re able to capture more business because our members don’t have to wait to talk with a mortgage loan officer,” Shope says. “Before implementing Prime Alliance, our loan officers had two unmanageable stacks of paper to contend with. First was the stack of messages to return from members [who] wanted a mortgage loan. The second was the mortgage files. There was paper everywhere.”

Since working with Prime Alliance, phone messages have become a thing of the past. Prime

Alliance has dramatically cut back the amount of information initially collected from members, and thus the amount of paperwork. Members are directed to the credit union’s Web site, where they apply online.

“Members have taken to our new approach more than we expected,” Shope says. “A year ago, when told they’d have to wait for a return call, many members probably sought other lenders even though they would have preferred to use the credit union. Members are now going online and are choosing to stay with GTE FCU,” he adds.

GTE FCU has also been able to expand its territory to include branches and mortgage consultants covering the west coast of Florida. “Because members apply online and loan officers take applications exclusively online, things became much more efficient,” Shope says.

BETHPAGE FEDERAL CREDIT UNION

In early 2002, Bethpage, New York-based Bethpage Federal Credit Union’s 120,000 members had only two choices if they wanted a mortgage: They could wait to see one of three loan officers or they could fill out a traditional application on Bethpage FCU’s Web site. But while the site looked high-tech, it was really only an electronic façade on the traditional process. Ironically, Bethpage FCU’s members represent a cross-section of many of the largest firms in the high-tech, manufacturing, pharmaceutical, legal and service industries.

“Members could apply online, but they had to go through the entire tedious 1003, and we couldn’t provide an online approval,” says Marilyn Barnes, vice president of lending at \$1.7-billion Bethpage FCU. “There was no interface to our loan origination system, so we printed out the 1003 and rekeyed it into our loan origination system.”

Based on Long Island but federally chartered to conduct business in 50 states, Bethpage FCU needed a multichannel, decentralized mortgage application process. Bethpage FCU turned to Prime Alliance Solutions because it liked what it saw and “no one else offered the reduced data set on the

1003 with the ability to give a decision through Fannie Mae's Desktop Underwriter®," according to Barnes.

"Despite the fact that the word 'mortgage' scared our staff immensely, once we introduced them to Prime Alliance they felt much more comfortable in counseling members in their mortgage options," Barnes says.

Bethpage FCU went live in July 2002, on a day when rates suddenly moved lower. "We took 50 applications that day," Barnes says. "Without Prime Alliance, we would not have been able to handle the refi volume."

Bethpage FCU is now focusing on new first-time home-buyer products and affordable-loan options available through its Prime Alliance connection to Desktop Underwriter.

Bethpage FCU is also pleased with the co-branding functionality of the Prime Alliance solution, because it enables the credit union to set up "child" sites for smaller credit unions on Long Island.

"Prime Alliance has opened doors for us, enabling us to make Internet technology available to all credit unions," Barnes says. "We believe that if we [credit unions] cooperate with each other to share in technology, it will help credit unions as a whole gain a larger share of the mortgage business."

MIDWEST FINANCIAL CREDIT UNION

Ann Arbor, Michigan-based MidWest Financial Credit Union's (MWFCU's) membership is largely within the University of Michigan health system, and it has only one branch in Ann Arbor. But it wanted to be able to handle mortgage applications from incoming residents and faculty who were moving to the state.

MWFCU's Coon was frustrated with a process that she says was, "to be frank . . . crazy." It involved taking applications over the phone and hand-writing them, rekeying them into the loan origination system (LOS), scoring the application, printing out the application and disclosures, and mailing them out.

MWFCU implemented Prime Alliance in July 2003, just after rates started to rise. "In hindsight, I wished I had known about it earlier. How many more loans could we have closed because of the faster turnaround time?," Coon wonders.

"Prime Alliance helped us streamline the process [and] get rid of hand-offs, and allows my processors to work as originators and my originators to work as processors," she says.

Coon is particularly excited about the ability to originate home-equity loans and HELOCs, and MWFCU is heavily marketing these loans this spring. It has teamed up with a local builder to give away \$20,000 in remodeling costs to one lucky member. Her goal is to originate \$17 million in home-equity loans during all of 2004, but secretly she hopes to generate this business during the three-month promotion.

"I absolutely love Prime Alliance. We love the technology, and we can now offer a wider array of loans so we don't have to say no to our members. And the relationships enable us to get the same benefits as large credit unions," Coon says.

"It's Christmas all year long," Coon says, "because Prime Alliance is the gift that keeps on giving."

Credit unions of all sizes now have easy access to this business solution through Prime Alliance's relationships with mortgage companies that serve credit unions and CUSOs. Regardless of the interest rate environment, Prime Alliance will continue to grow both in the number of mortgage transactions it facilitates as well as the number of customers it serves—we project by year-end we'll grow to a total of 84 credit union customers serving approximately 1,000 credit unions.

Rising interest rates don't scare us, because our customers are among the most forward-thinking and innovative in the industry. Long before the refinance boom ended, many had their purchase-money lending strategies in place. Proof of their efforts became evident during the first quarter of 2004, when nearly 42 percent of all Prime Alliance transactions were for purchase-money loans. And that number will likely rise in the coming months now that we have access to a full range of Fannie Mae mortgage products and services, including some of the newer ARM and low LTV products that help promote homeownership within underserved and emerging markets. **MB**

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