



October 26, 2005

Bill Hampel, Senior Vice President Research
Chief Economist
Credit Union National Association
601 Pennsylvania Ave NW, South Building
Washington, D.C. 20004-2601

Dear Mr. Hampel:

We are responding to your request for comments on the Credit Union National Association (CUNA) Home Loan Payment Relief (HLPR) mortgage program. We do not object to the program as proposed.

Based on the information you provided, the program would provide mortgages to first time homebuyers at one point below market rates for the first three years. After three years, variable rate mortgages will adjust annually with rate adjustments capped at 1 percent per year and 5 percent over the life of the loan. For fixed rate mortgage loans, the rate would increase by one point after three years. Credit unions will be encouraged, but are not required, to reduce costs to the member such as private mortgage insurance (PMI), fees, points, and other closing costs. Each credit union will underwrite the loans using its own criteria; however, down payments cannot exceed 3 percent of the value of the loan including gifts or grants (a 97 percent loan to value ratio) and the maximum debt ratio will be capped at 42 percent.

Under the HLPR mortgage program, each participant credit union commits to making loans to qualified members using the standards noted above. The annual commitment amount for participant credit unions is between 0.5 percent and .75 percent of assets with total investment in the program capped at 3 percent of assets.

As you indicated, assuming an average price appreciation rate of 3 percent, a mortgage loan's loan to value (LTV) ratio would fall below 80 percent sometime during the fifth year. At that time, the loan could be sold on the secondary market without PMI. Obviously, higher price appreciation rates would decrease the LTV ratio faster and lower appreciation rates more slowly. It is assumed that most credit unions will hold HLPR mortgages in their loan portfolio since standard practice for the sale of mortgages on the secondary market requires a LTV of 80 percent or below in the absence of mortgage insurance.

Since the maximum total loan commitment for each credit union is 3 percent, we believe the overall risk exposure for credit unions is low. A credit union with \$200 million in assets could fund a maximum of \$1.5 million in loans annually up to a total portfolio maximum of \$6 million. Assuming the credit union's net worth is equal to its peers at 11.16 percent, it would have \$22.3 million in reserves to accommodate any potential losses.



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That being said, credit unions are expected to adhere to safety and soundness principles when managing risk or evaluating new programs. Credit union management is ultimately responsible for evaluating whether this type of loan program is appropriate for the credit union and its members based on its risk analysis and overall business strategy. As with any new loan program, the credit union's policies should outline risk tolerance limits.

Also, safety and soundness issues may exist in the legal agreements between CUNA and the participating credit unions. While management is expected to understand their rights, responsibilities, and liability under any executed agreement, we recommend the legal contract have an escape clause which would permit credit unions to terminate participation in the program for safety and soundness reasons. We also recommend credit union management secure independent legal counsel to review the contract to ensure the contract language is equitable and in compliance with state and federal laws.

We also note the HLPR mortgage program primarily targets first time home buyers. Since serving members of modest means is a fundamental part of credit union business, we recommend the program be extended to any member meeting the income limitation, not just first time homebuyers.

We appreciate the opportunity to provide comments on this program. Should you have any questions, please contact Program Officer Lynn Markgraf at (703) 518-6396.

Sincerely,

David M. Marquis, Director
Office of Examination and Insurance

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SSIC 14200

cc: All Regional Directors
Director OSCUI
Director OCCU
Executive Director
Board Assistants

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