



Utah Community Credit Union Boosts Competitive Position with Optimal Blue's Pipeline Risk Management Capabilities

OVERVIEW

Since 2012, Utah Community Credit Union has utilized Optimal Blue's full-service pipeline risk management, hedging, and committing solution to:

- + Convert from best efforts to mandatory delivery
- + Increase its average loan margin as compared to best efforts execution by over 25 basis points
- + Maintain low hedging costs at an impressive 6 to 7 basis points
- + Improve its competitive position and increase its service to members

LENDER PROFILE

Utah Community Credit Union (UCCU), headquartered in Provo, Utah, has \$1.2 billion in total assets. The credit union was founded in December of 1955 on the campus of Brigham Young University and operates on behalf of more than 125,000 members. Its long-time connection with universities has helped to shape UCCU's member-focused culture. UCCU provides services in 10 Utah counties.

The mortgage division currently employs 18 mortgage loan officers, and it originated \$338 million in residential mortgage loans in 2016 through its retail channel. The mortgage lending division's philosophy is to employ best-of-breed technology to provide excellent borrower service and advantageous pricing. Its philosophy also includes recruiting talented lending professionals to deliver a high-quality member experience.

CHALLENGES AND PAIN POINTS BEFORE OPTIMAL BLUE

A Decentralized Investor Selection and Pricing Model

Before converting to Optimal Blue in 2012, mortgage loan officers operated independently in a decentralized environment to individually select investors and determine pricing and eligible loan products. The credit union sold loans to six investors. Loan officers would select an investor based upon their familiarity and comfort with the investor, their knowledge of the investor product guidelines, and pricing.

Loan officers were not able to efficiently compare all investors for every loan to achieve best execution because they did not have the electronic tools and centralized investor data available to achieve best execution in their decentralized model. Once a loan officer selected an investor, the rate lock request was processed by the loan officer, using the investor website to lock the loan for “best efforts” delivery. Loan officers worked directly with the investor to process subsequent change requests.

Loan Sales Challenges

UCCU did not sell directly to Fannie Mae or Freddie Mac. The credit union did not have a centralized loan pipeline database or a sufficiently robust secondary market solution for it to execute a best execution loan sales strategy with mandatory delivery. Jeff Meyers, UCCU’s Vice President of Mortgage Lending, explained the implications, “We left basis points on the table. The loan officer did not have automated tools to review all eligible investor products and pricing with the mortgage applicant present. As a result, the credit union was losing upwards of 25 basis points in some cases by not employing a best execution strategy.”

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Meyers further pointed out that the credit union did not have the necessary secondary marketing expertise internally to convert to a higher-margin, best execution, mandatory delivery strategy prior to Optimal Blue. Recruiting the specialized skill set with adequate redundancy was not cost-effective for UCCU’s mortgage operation.

Pipeline Management and Reporting Limitations

Prior to implementing Optimal Blue, UCCU’s secondary marketing staff had a centralized locked loan database, but lacked appropriate reporting tools to manage the risk associated with mandatory delivery and hedging. Staff relied on the reporting tools and locked the available loan data that was gathered manually from its six investor websites to track, understand and monitor the total pipeline. The absence of a single pipeline database and no robust, flexible, and intuitive reporting tool also meant that the credit union was unable to monitor and analyze loan pull-through rates.

CHOOSING OPTIMAL BLUE AS ITS FULL-SERVICE SECONDARY MARKETING SOLUTION

Based on a strong recommendation from a trusted industry advisor, UCCU considered Optimal Blue as an option. As part of its due diligence, UCCU interviewed Optimal Blue’s secondary experts. “When we interviewed Optimal Blue’s secondary market team, it was clear that they knew what they were doing – they were true experts,” Meyers recalled.

UCCU selected Optimal Blue for several reasons. Management determined that Optimal Blue would enable the credit union to gain access to industry-leading secondary marketing expertise for hedging, pipeline management, and best execution and mandatory delivery loan sales. This level of expertise was prohibitively expensive to take on internally. Management knew that they required a turnkey secondary marketing technology, a single pipeline database and expert advisory services to enable it to convert from best efforts to a mandatory delivery model and improve its loan margins. By improving loan margins, UCCU believed it would be able to recruit additional talented mortgage lending professionals and provide advantageous pricing to its members.

UCCU compared several secondary vendor solutions before making its decision. Optimal Blue's technology and expertise persuaded the credit union to become a client. Meyers explained, "Optimal Blue's technology was just so far ahead of the other vendor solutions in the marketplace under consideration. Optimal Blue's reporting was intuitive and flexible, permitting us to transparently understand everything occurring in the pipeline and allowing us to continuously monitor the portfolio." He added that other vendors offered complex and voluminous "canned" secondary market reports that were difficult to understand and analyze. Optimal Blue's reporting was flexible, easy-to-use and interactive, which enabled UCCU's secondary marketing staff to generate real-time reports to better understand its market position and related risk.

THE GAINS

Since 2012, UCCU has achieved its secondary marketing objectives with Optimal Blue's full-service pipeline risk management solution. The gains include:

Investor Loan Eligibility Analysis

One initial benefit of working with Optimal Blue was the "data scrubbing" of UCCU's pipeline, including a loan-by-loan investor eligibility analysis. The data scrubbing exercise ensured UCCU was not exposed to the risk of delivering an ineligible loan to an investor, which would create undue exposure to interest rate risk and possible non-delivery fees. Optimal Blue also worked with the credit union to ensure that it had appropriate reporting for secondary marketing staff, accountants, regulators and auditors.

Secondary Marketing Expertise

Meyers stated, "From day one, Optimal Blue secondary services specialist have always been available to us. There has never been a time where we felt we needed to clamor to get their attention. I certainly feel like the staff has been

invested in helping us grow our credit union by taking the time to consider and implement new approaches to pipeline management." Optimal Blue's ongoing weekly meetings with UCCU focus on margin improvement ideas. During monthly meetings, Optimal Blue reviews the overall strategy, pull-through rates, and exception trends and provides UCCU with recommendations. UCCU has been served by the same Optimal Blue secondary marketing analysts since implementation.

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Jeff Meyers explains the value of using the advisory services of Optimal Blue secondary services experts. "The weekly and monthly calls enable us to learn from seasoned secondary marketing experts who present investor, hedging, best execution and pipeline management best practices and strategies." The credit union is exposed to a wealth of insights available from Optimal Blue experts who interact continuously with scores of originators and investors. These up-to-date insights have enabled the credit union to learn about and implement new approaches to improve margins.

Meyers indicated that Optimal Blue continues to improve its pipeline risk management solution with periodic enhancements each year. He feels that the continual improvement philosophy is driven by Optimal Blue's leadership and increases the value of the solution to its users.

Loan Margin Improvement

The secondary services solution has enabled the credit union to produce additional income by increasing loan margins, which has also enabled the credit union to provide improved pricing to its members. The improved margins and pricing have also enabled the credit union to recruit additional talented employees.

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Hedging costs have been maintained in the range of 6 to 7 basis points, at the low end of the typical industry cost, and there has been a significant improvement in loan margins. UCCU has maintained average mandatory delivery spreads compared to best efforts delivery of 26 basis points since 2012. Their year-to-date 2017 average gain over best efforts delivery is 29 basis points. Optimal Blue’s pipeline risk management system has facilitated the credit union sale of over \$1 billion in mortgage loans.

Optimal Blue’s services were essential to UCCU’s conversion to real-time hedging and pipeline management and the shift to the centralized, mandatory delivery, best execution model. Without Optimal Blue, the credit union would not have been able to obtain higher margins or take full advantage of the benefit of selling direct to the agencies in a mandatory delivery model. The Optimal Blue solution has enabled UCCU to make

direct loan sales to Fannie Mae and Freddie Mac on a servicing-retained basis, providing in-house local mortgage servicing and improved mortgage pricing to members for these loans. According to Meyers, “Credit unions that don’t take a look at this strategy will become irrelevant. Like any business, margins will continue to shrink in the mortgage lending industry - making it crucial to stay laser focused on initiatives that contribute and maximize margin. Optimal Blue opens up one more avenue to do that for our credit union.”

SUMMARY

By leveraging Optimal Blue’s full-service pipeline risk management services, Utah Community Credit Union has improved member experience and attracted more talented mortgage professionals. The advisory services and technology provided by Optimal Blue’s industry-leading experts have enabled the credit union to convert to a centralized-hedging, mandatory- delivery, best execution model, resulting in an impressive 26 basis point spread over best efforts delivery. Optimal Blue experts have worked with UCCU since 2012 to provide industry expertise and a dynamic and regularly enhanced technology platform to meet UCCU’s needs.

ABOUT THE AUTHOR

Optimal Blue engaged award winning, professional services firm First Wellesley Consulting Group, Inc. to conduct detailed research and gauge client success. Founded in 1991, First Wellesley delivers consulting, strategic planning, speaking, polling and industry research-specializing in the financial services and mortgage industries. Optimal Blue operates the mortgage industry’s digital marketplace, connecting originators, investors, and providers with comprehensive secondary marketing solutions, market-leading capabilities and value-added services that deliver results. For more information, visit www.optimalblue.com.