



Sound lending requires yesterday's standards and today's technology

By Richard Maxstadt, Senior Vice President/Chief Operating Officer, CUC Mortgage

BOOM AND BUST CYCLES ARE NOTHING NEW TO THE HOUSING industry—or any other industry, for that matter. Though the word “cycle” implies that these periods of growth and contraction are regular, the opposite is true. While periods of growth are usually followed by periods of contraction, the duration, timing and severity of each upswing or downturn are largely unpredictable.

The typical business cycle has four distinct phases. The peak, or boom, is a period of fast economic growth, often accompanied by increased demand and higher spending. Following the peak, most industries enter a period of contraction or slump, which finds the sector reducing its output due to decreased demand. If the slump lasts long enough, an industry enters a full recession, when spending drops off, unemployment rises and economic output slows down. After a period of time, industries begin to experience the final phase of the business cycle: the expansion or recovery, where activity speeds up, spending once again increases and customer confidence bounces back.

The primary difference with this downturn is that the industry created it.

In the past, it was economic changes that impacted the housing market. This time, the housing and lending industry created the bubble that impacted the greater economy.

The biggest surprise is how far both home prices and loan volume have fallen. One fact remains constant: Housing markets do not turn on a dime, and they are not national or metropolitan in scope. Housing markets are local. Even housing within zip codes doesn't move in perfect correlation with the metro market, and housing prices in different neighborhoods within a single zip code don't necessarily move in lockstep with the overall zip code.

What do lenders need to do now? Reinstate the sound lending practices of yesterday and apply them with the aid of today's technology. Over the last decade, we have seen a fairly

rapid decline in credit standards. Basic lending guidelines and standards like debt-to-income, down payment and verification of income will never be outdated, however. Returning to these basic standards will give us the best possible chance to restore stability and confidence to an industry that remains vital to the health of our economy.

Applying sound lending practices and credit standards means better asset quality and lower risk. On the downside, it also means less volume—and with lower risk comes lower returns. In this leaner environment, it becomes even more important for credit unions to follow a strategy that focuses

on profitability by way of efficiency. As the mortgage market stabilizes, the credit unions with the most efficient operations will perform the strongest. And technology will help you get there.

To remain viable in a market with razor-thin margins, your credit union will need to pursue ways to reduce costs, shore up solid business practices and diversify where possible. Look to technologies that reduce costs and free staff to focus on growing new or existing business. There have been significant technological advances over the past several years, and products

that cover almost every aspect of loan production and delivery have been created. One of the most important advancements in technology has been affordability. Given the relative affordability of technology, your credit union can now achieve productivity gains that will truly impact your lending operation.

This period of massive change presents credit unions with both daunting challenges and exciting opportunities. The mortgage industry has a chance to rebuild a stronger and smarter version of itself, and credit unions can be part of that rebuilding. □

To learn more about the services provided by CUC Mortgage, visit www.cucmortgage.com, or contact Richard Maxstadt at richard.maxstadt@cucmortgage.com or (800) 342-4998, ext. 8115.

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