Credit Union Mortgage Interest Rates

Presentation to NCUA Board

February 20, 2020
Research Questions

1. Were mortgage rates for credit union loans different?

2. Did those differences vary in rural areas?

3. Could differences in credit characteristics explain differences in mortgage rates?
Rate differences are a measure of the extent to which credit unions are serving their membership.

Differences in rates are indicators of efficiency and industry competitiveness.
Our Data Analysis

- Used the 2018 HMDA Database—the latest available HMDA information.

- 30-year conventional fixed-rate, first-lien loans for one-unit, owner-occupied properties.
Target of Our Work

- **Mortgage Rates**
  - Contract Interest Rates
  - Rate Spread (Difference between mortgage APR and Average Prime Offer Rate)

- **Credit Risk Indicators**
  - Credit Score
  - Combined Loan-to-Value (CLTV) Ratio
  - Debt-to-Income Ratio (DTI)
### Median Values and Differences in Medians

<table>
<thead>
<tr>
<th>Geography</th>
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<td>Other (%)</td>
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<tr>
<td>All USA</td>
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**Lower Rates**

**Similar Credit Characteristics**
### Lower Mortgage Rates and Similar Credit Risk Attributes

**Purchase-Money Mortgages Only**

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**Lower Rates**

**Similar Credit Characteristics**
Caveats

✓ Evaluated a very specific loan type: 30-year, fixed-rate, conventional loans

✓ By construction, smaller originators are not included in the dataset
  - HMDA filing generally was not required for depositories with <= $45 million in assets or that satisfied certain other criteria, including having limited loan volumes.

✓ Not a comprehensive statistical analysis
Concluding Thoughts

- Economic Significance of Results

- Observed discounts in mortgage rates may entail thousands of dollars in savings

- Example:
  - 30-year, fixed-rate loan of $175,000
  - 3.60% vs. 3.74% = Roughly $5,000 in savings