

Early Concept Document

Please contact
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for updated information.



CONCEPT DOCUMENT

INTRODUCTION

The headlines are far too familiar....

A record number of homes available for sale....and many foreclosures are not even marketed.

Banks, Credit Unions, and other lenders continue to tighten lending criteria making it more difficult to own a home.

Consumers' credit histories are damaged as the recession and credit crunch take their toll.

Investment opportunities are limited as savings and treasury rates are low and the stock market outlook is uncertain.

Projections for credit unions forecast tepid loan growth and weak earnings for the foreseeable future.

What one solution can link various parties together to address the issues above that benefit all participants?

THE RESPONSIBLE RENT LOAN!

EXECUTIVE SUMMARY

The mortgage meltdown continues to have an ongoing impact on the U.S. economy and American consumers. According to Zillow Market Reports, the first quarter of 2009 saw a continued decline of home values with the [Zillow Home Value Index](#) (ZHVI) dropping 14.2% on a year-over-year basis. From its peak in the second quarter of 2006, U.S. real estate values have dropped a total of 21.8% after nine consecutive quarters of year-over-year declines.

In addition, those who seek to qualify for mortgages are being declined in record numbers. Credit scores, one of the main determiners of approving loans, have been dropping. According to a March 2009 article in *USA Today*, the median credit scores dropped by 5 points nationally in 2008. In parts of California, Arizona, and Florida, the median scores fell by as much as 17 points. Though a good percentage of the credit score decline can be attributed to loss of employment, income, and rising debt, there are other factors, such as medical issues, marital status changes, and most recently, lenders who are shoring up their risks. Many banks are closing a significant number of credit card accounts and reducing millions of dollars in available credit lines, thus causing consumers with excellent credit and spotless payment records to see a reduction in their credit scores.

As home values have declined, mortgage lending guidelines have tightened, and credit scores have dropped, the pool of available *qualified buyers* for owner occupied properties has significantly shrunk. However, the need for suitable rental housing is increasing with the fall in values; thus the potential to profitably become an investor for rental properties is also on the rise. Despite the apparent opportunities and the attractive price tags on homes, many potential investors may be reluctant to become landlords because of the risks associated with having poor paying tenants.

In order to address these needs, The American Dream has developed the Responsible Rent Loan, for investment property owners. The Responsible Rent Loan will reduce the risk for an investment property mortgagor by addressing the top three pain points that investors have. It allows for a limited number of payment deferments if the rental property experiences vacancy during the course of the loan. The member investor also will receive a limited number of screening reports from a national screening service to better identify low risk tenants using non credit based factors. Finally, the member investor will be able to market available units on an exclusive web-page which will be a link from the Credit Union's web-site.

OPPORTUNITY

Credit unions have a unique opportunity to stimulate small business (the investment property owner) and provide suitable housing for American families who have been impacted by the economic crisis. As the mortgage crisis crescendos and far fewer consumers are approved for home ownership, the attraction of renting is on the rise. Families can have the benefit of a single family dwelling, but without the commitment of ownership. Investor property owners, on the other hand, will see an increase in the number of potential tenants to occupy their homes, thus reducing vacancy issues and covering their expenses. The Responsible Rent loan seeks to capitalize on these changes in the marketplace by linking potential investment property owners with credit union members who wish to distinguish themselves as low risk tenants. By bringing the two groups together, both reduce their risk and the credit union can gain loyalty as well as product penetration which will lead to better financial performance.

ENVIRONMENTAL SCAN

Our group decided upon the product name “Responsible Rent” after a patent/trademark search indicated there were no companies in this field using this name.

Our research into the potential success and penetration of this product included:

- Informal surveys with current investment property owners. The vast majority were very enthusiastic about the idea of having payment deferrals associated with vacancies in a property. When asked to quantify the benefit, this feature, which costs the CU practically nothing in profitability, amounted to the same benefit as a 3/8% reduction in the interest rate on the loan.
- Informal surveys of Real Estate Brokers who said there was not a comparable alternative in the marketplace and said this would be a competitive product that may attract buyers
- Research into potential screening services and partners. The web yielded a fair amount of companies that performed this type of screening. After reviewing for pricing, national capabilities, and report content, the group investigated two possible screening partners, PRBC (Payment Reporting Builds Credit) and Advanced Reporting, a CUSO of MaPS Credit Union in Salem, Oregon. Both companies had national automated reporting capabilities, extensive databases and comparable pricing. The American Dream team selected Advanced Reporting based on the following: (a) they are a credit union service organization; they understand credit union philosophy/culture and how the Responsible Rent concept would apply to our organizations. (b) They provided additional specific manual verification services for similar pricing—including employment and rental history. Their rental history verification included inquiries regarding property damage incurred while renting, complaints registered on the renter, pet ownership and whether the previous landlord would rent to them again. (*see exhibit of pricing/services performed*)
- Extensive focus group with current investment property owners which yielded the following information: While the offer of one month of rent “protection” didn’t overwhelm the group, they did point out that they were all seasoned property owners. The conversation turned to how this offer would be compelling to a first time land lord. The group talked about how they initially worried about an investment property because they were worried about what would happen if their renters moved out. After years of experience, they all realized that renters come and go. But they thought it would attract new buyers. Their concerns with the program included tracking and proving their tenant had left.
 - The group liked the idea of the credit union screening tenants for them. They talked about how time consuming it is to get 10, 20 and even 30 applicants the first day a

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- property goes on the market. They suggested the idea of the credit union running back ground checks and giving them the top three candidates.
- The group liked the idea of advertising their properties on our websites, if doing so was simple for them.

SOLUTION

The Responsible Rent Loan alleviates the issue of risk for an investment property owner in the following ways:

- *Screens Potential Tenants:* Through screening tool that checks (1) evictions, liens, suits and judgments, (2) verification of cell phone payment/car insurance (6 months on-time payments) (3) criminal report (4) sex offender report. The member investor property owner, who obtains their mortgage financing through the credit union would receive two of these free screenings per 12 month period
- *Addresses Gaps in Occupancy:* The Responsible Rent Loan will grant members the potential to apply for a skip payment on their property should they have a gap in occupancy. We recommend allowing a maximum of one skip payment per 12 month period, and a maximum of five skip payments during the life of the loan.
- *Provides a Marketing Opportunity for Investors:* The Responsible Rent Loan will include a page listing properties for rent on the credit union's web site.

The Responsible Rent Loan allows CU Members who wish to differentiate themselves as low risk tenants to qualify based on non-credit factors. Many credit issues stem from life changing events such as divorce, medical issues, and temporary loss of employment which have little, if anything, to do with their likelihood to make rent payments on time. The Responsible Rent loan screens specific and relevant information regarding a prospective tenant's past rental and payment behavior.

MEMBER BENEFITS

- *Member investor:* Has an opportunity to become an investment property owner with "lower risk" because the payment deferrals reduce the possibility of default and the tenant screening service increases the probability that they will attract good paying tenants.
- *Member Tenant:* Allows them to better differentiate themselves based on non-credit based factors with use of screening system. This may make it easier for good paying tenants to find acceptable housing.

CREDIT UNION BENEFITS

- Able to attract more investment property loans without discounting the rate or fees. This will help CUs grow members and loans and shore up earnings to return back to their member-owners in the form of lower loan rates, higher deposit rates and additional products/services.
- Preliminary research reveals these benefits equate to a 3/8% discount in rate in terms of the value perceived by the member.
- The product is more competitive without negatively affecting the bottom line and the collective membership.

TARGET MARKET

The primary target market for this loan are potential first time investment property owners. Many people who may have an interest in becoming an investment property owner are reluctant to do so because of the risk. The “what if I get a bad tenant” is a real concern in the marketplace which holds many consumers back who may wish to purchase an investment property owner. The Responsible Rent Loan offers a “less risky” loan to be able to allow us to tap this potential pool of new CU member investment property owners.

A secondary target market is CU members (and potential members) who may wish to differentiate themselves as a potential tenant based on non-credit factors. Many potential good tenants have poor credit because of various life events (divorce, employment loss, disease) which have little to do with their likelihood to pay rent on time. By allowing these members to more easily access good housing the CU will benefit by building member loyalty and future product penetration.

OPERATIONAL AND OTHER CONSIDERATIONS

The Responsible Rent loan will require dedicated staff resources to explain the benefits of this product to investors and potential tenants, as well as the ability to make business loans, and to facilitate the tenant screening process. Participating credit unions will also want to contact their data processor to see if there will be any system barriers to launching this product. We consider a strong web-site presence essential to the success of this product and we have drafted a sample which is attached in the Appendix.

PROOF OF CONCEPT

This project is ready to be piloted. The Filene Research Institute has put a call out to credit unions to pilot this program. We eagerly encourage interested credit unions to contact one of the team members to get more information on this idea and tips and resources to get started.

GETTING STARTED

- Policy considerations. Responsible Rent Loans are Member Business loans and CUs must have a member business policy and the balance sheet capacity to allow for Responsible Rent Loans. CUs need to assess the \$ and % of assets they want or are able to hold of Responsible Rent Loans
- Assess your local marketplace. The state of the housing market varies dramatically by area. Some areas have a large supply of foreclosed properties and other vacant properties available for sale. Other areas are healthier or even growing. While the Responsible Rent Loan may work in any housing market, it is likely to be most successful in encouraging new people to become investment property owners in a soft or distressed housing market.
- DP and HR capacity issues- CUs should assess their staffing and DP capability to handle payment deferment requests.

MARKETING TACTICS

- Offer quarterly educational seminars on landlord/tenant basics. Have an attorney or other experts speak, advertise to membership/community/churches/local housing authority. Attendees provide a natural prospect pool for tenants, investor property mortgagors.

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- Establish a referral program for existing members with investor mortgages. Offer home improvement store gift card for referrals
 - Create or add to your realtor referral program. Reach out to your preferred realtors; many of them have direct connections to potential investors and can serve as match makers. Offer gift card, or host an educational event for them to speak.

FINANCIAL PRO-FORMA

A strong Mortgage program can yield several benefits to a credit union. Households with Mortgage Loans tend to have a higher number of services per household (4.22) than the average member (2.11), and the national average annual profit on a Mortgage Loan is \$1,951.* The cost of the custom reports proposed under the Responsible Rent program is \$35 each. The program proposes an annual benefit of two reports for a total expense to the credit union of \$70.

* Raddon Financial Group's CEO Strategies Spring 2009 Report

RESOURCES

The American Dream team has drafted guidelines for payment deferments and a disclosure for Responsible Rent Loan borrowers detailing the guidelines and potential negative effects of payment deferments. The American Dream Team has also negotiated pricing with a prominent tenant screening vendor and has developed templates for web-sites that allow Responsible Rent borrowers to market properties to CU member tenants.

PROJECT TEAM

Filene i³ is a creative group of insightful and energetic credit unions professional who develop new ideas, innovate, and implement for the benefit of the credit union system. Please visit filene.org/home/innovation or email innovation@filene.org to learn more. The team members who developed this idea are:

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APPENDIX

Advanced Reporting

Professional Background Screening Services

P.O. Box 12398 ■ Salem, OR 97309

503.375.0451 ■ Toll Free 1.888.375.0451

Fax 503.364.0195 ■ Toll Free Fax 1.877.450.2774

www.advrep.com

Tenant Screening

Individual Services and Pricing

Social Security Trace **\$3.00**

Credit Report and Score & Fraud Alerts **\$8.00ⁱ**

Bankruptcy Search **\$5.00**

Tenant Rating **Free**

Criminal Records Search **\$10.00ⁱⁱ**

Instant Statewide Record Locator (with National Sex Offender Search) **\$5.00**

Instant Multi-State Record Locator (with National Sex Offender Search) **\$10.00**

Global Terrorist Watch **\$5.00**

Civil Records Search **\$10.00ⁱⁱ**

Instant Statewide Eviction Locator **\$5.00**

Employment Verification (Per Employer) **\$8.00**

Rental History Verification (Per Landlord) **\$8.00**

Faxed Report Processing Fee **\$5.00**

Packages

Instant Pre-Screen **\$13.00**

Credit Report with Score & Fraud Alerts

Instant Statewide Record Locator

with National Sex Offender Search

Tenant Basic **\$20.00**

Instant Pre-Screen +

Criminal Records Search

Instant Statewide Eviction Locator

Tenant Plus **\$32.00**

Tenant Basic +

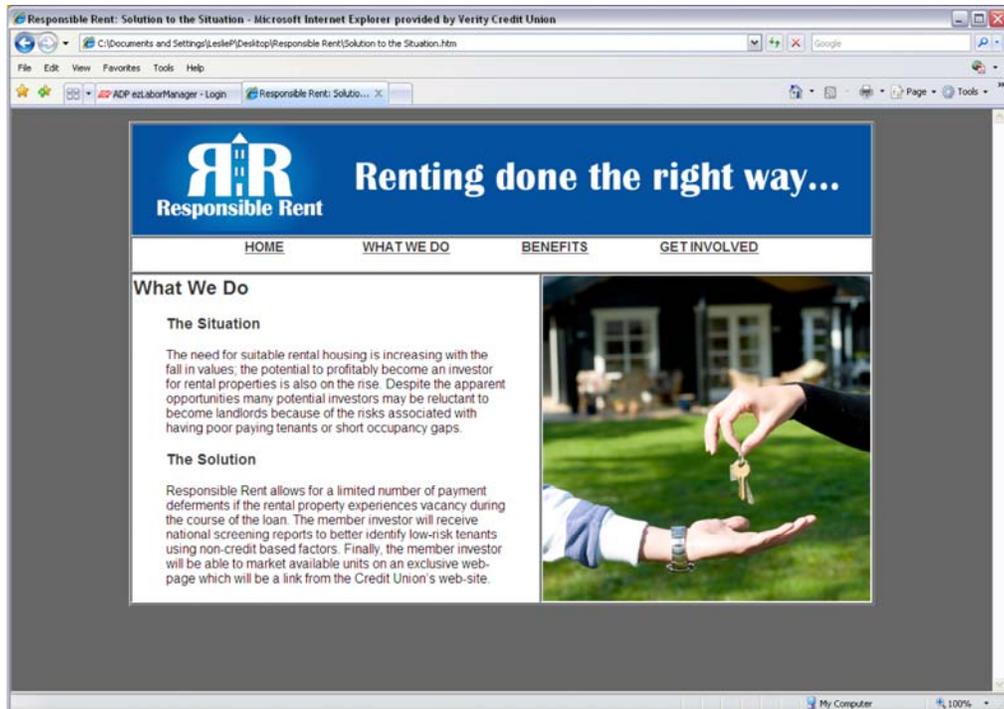
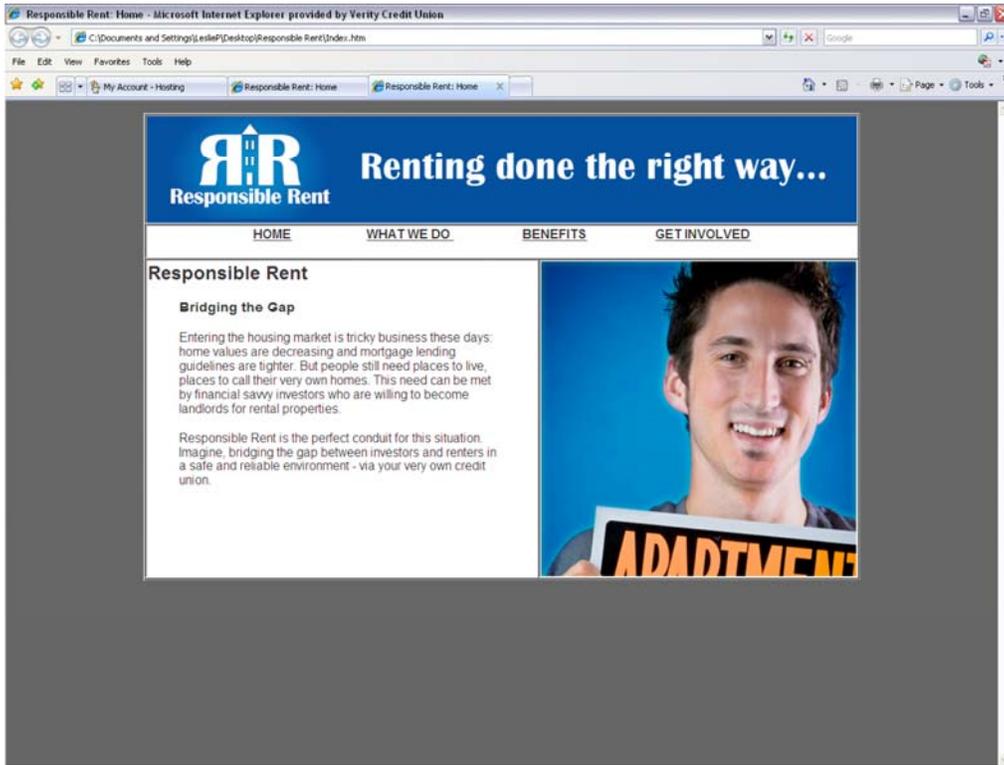
Employment Verification

Rental History Verification

Add any individual service to our base packages, select single services from the ala carte menu or call today to create your own custom packages.

ⁱOnsite inspection required to access this service.

ⁱⁱFee is per name, per jurisdiction. Additional fees may apply (e.g. court, research, etc.)



Responsible Rent: Benefits - Microsoft Internet Explorer provided by Verity Credit Union

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File Edit View Favorites Tools Help

ADP ezLaborManager - Login Responsible Rent: Benefits



Responsible Rent

Renting done the right way...

[HOME](#) [WHAT WE DO](#) [BENEFITS](#) [GET INVOLVED](#)

Benefits

Win-Win Situation for All

The credit union attracts more investment property loans without discounting the rate or fees, roughly equating to a 3/8% discount in rate in terms of the value perceived by the member. New members may be attracted to register and play in this new "preferred renter" space.

The investor has a "lower risk" because the payment deferrals reduce the possibility of default and the tenant screening service increases the probability that they will attract good paying tenants.

The member tenant can differentiate themselves based on non credit based factors with the use of a screening system, making it easier for good paying tenants to find good housing.



My Computer 100%

Responsible Rent: Get Involved - Microsoft Internet Explorer provided by Verity Credit Union

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Responsible Rent

Renting done the right way...

[HOME](#) [WHAT WE DO](#) [BENEFITS](#) [GET INVOLVED](#)

Get Involved

Contact the American Dream Team

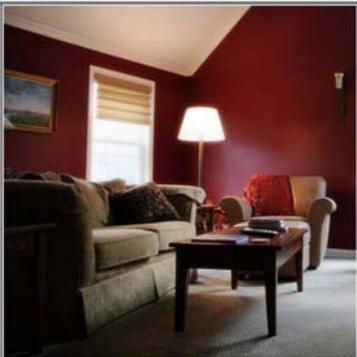
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