



Affinity Plus Federal Credit Union Gains Experience, Enhances Profitability Through Mortgage Securitization

When Affinity Plus Federal Credit Union (Affinity Plus) wanted to take a new approach to their mortgage business, they looked to Freddie Mac for strategic mortgage securitization opportunities.

Based in St. Paul, Minnesota, Affinity Plus Federal Credit Union is the state's largest credit union with nearly 130,000 members, which primarily include state, and state university employees, faculty, and students.

One way Affinity Plus serves their members is through a solid mortgage lending program. With mortgage volume comprising 35-40 percent of their overall loan volume, Affinity Plus' mortgage holdings include \$302 million of first mortgages – \$170 million of those loans are sold to Freddie Mac.

“While many organizations are downsizing their mortgage departments, Affinity Plus Federal Credit Union's mortgage demand is growing, and stronger than it has ever been,” said Jeff Call, chief financial officer of Affinity Plus.

Benefit from risk-reward trade-off through active balance sheet management

Affinity Plus' sustained profitability in light of current mortgage market volatility is in part a result of credit unions' overall tendency to take a prudent approach to mortgage lending. However, Affinity Plus can also attribute their current mortgage business success to ongoing portfolio management.

According to Call, the credit union is already in the practice of routinely examining their portfolio.

“Given market fluctuations we [Affinity Plus] look to see how we can reposition ourselves to avoid a negative impact,” said Call. “Having the option to sell our conforming loans – particularly packaging seasoned mortgages – to Freddie Mac allows us to keep our portfolio from getting too heavy.”

Affinity Plus' recent portfolio opportunities have been with ARMs they are holding. According to Freddie Mac's Office of the Chief Economist, approximately \$500 billion in ARMs are facing adjustments this year. For Affinity Plus, this change in the ARM market signaled a good opportunity to adjust their balance sheet and reach out to members seeking to refinance out of their ARMs.

Affinity Plus realized new business possibilities with mortgage securitization

The opportunity to securitize a portion of their ARMs propelled Affinity Plus to swap \$18 million in ARMs for a Freddie Mac participation certificate (or security).

“We wanted to go through the process and see how it works and to gain the experience so going forward we would have more knowledge of it,” said Call.

Securitization allows you to realize the value of your mortgage assets. Mortgage securitization – the process of converting a package of mortgages into an investment vehicle – allows you to adjust your balance sheet based on market trends. Securitization can also help you improve your net margins and the overall profitability of your mortgage holdings.

By exchanging your mortgages for Freddie Mac securities, Freddie Mac assumes the risks while you continue to earn the yield on your mortgage asset. The advantage of holding securities means that when the need arises, you can sell your securities faster and at more favorable prices than your whole loans. An additional advantage to securitizing your mortgages is that you have a greater opportunity to earn even higher market values for your assets.

Affinity Plus successfully structured their pilot portfolio transaction by working with Freddie Mac and their own accounting team.

Freddie Mac was there every step of the way with Affinity Plus

Call said Affinity Plus is always looking for different tools so they can effectively make portfolio adjustments based on market conditions.

“The consultative sales approach that Freddie Mac provided made a complicated balance sheet restructuring into a relatively easy process,” said Call. “I was impressed with their cooperative nature.”

Call added Freddie Mac worked with Affinity Plus throughout the entire process, including helping them identify and understand regulatory issues and all-in pricing, and working with the credit union to identify risks associated with duration and interest rate.

“We understood this was a new process and business opportunity for Affinity Plus and we were dedicated to helping them achieve their goal,” said Chip Halsey, Freddie Mac sales manager. “When we brought the opportunity to their attention, they agreed it was a good time to try securitization.”

Practice leads to profitability for Affinity Plus

The process of securitizing seasoned ARMs allowed Affinity Plus to avoid a loss to income and report an adjustment to equity that enabled them to improve their Net Interest Margin, capital position, and obtain borrowing advantages.

Instead of reporting a loss, Affinity Plus now enjoys the benefits of enhanced cash flows generated from the servicing rights, and float values from the securities.

“Now that we’ve had the experience of securitizing mortgages, we know what the expectation is from Freddie Mac and what can be sold in these types of swaps, which will save us time preparing the next one,” said Call.

Learn more about how credit unions can realize new possibilities for their mortgage business in today's market:

- The Freddie Mac/CUNA Alliance
www.freddiemac.com/singlefamily/cuna.html
- Freddie Mac's credit union web center
www.freddiemac.com/singlefamily/creditunions.html
- Portfolio strategies for credit unions
www.freddiemac.com/singlefamily/cu-strategies.html