



**NCUA**  
National Credit Union Administration

Office of the Chief Economist

# Credit Union Mortgage Interest Rates

Presentation to NCUA Board

February 20, 2020

# Research Questions

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- 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?*

# Relevance of Work

- 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)

# Lower Mortgage Rates and Similar Credit Risk Attributes

## Purchase-Money and Refinance Loans

Median Values and Differences in Medians

Geography	Interest Rates			Rate Spread			Credit Score (First Applicant)		Combined Loan-to-Value (CLTV) Ratio		Debt-to-Income (DTI) Ratio	
	Credit Unions (%)	Other (%)	Difference	Credit Unions (ppts)	Other (ppts)	Difference	Credit Unions	Other	Credit Unions (%)	Other (%)	Credit Unions (%)	Other (%)
All USA	4.63	4.75	-0.13	0.25	0.38	-0.12	753	755	80.0	80.0	35.9	38.1
Metro Areas	4.63	4.75	-0.13	0.25	0.37	-0.12	754	755	80.0	80.0	35.9	38.1
Non-Metro Areas	4.63	4.75	-0.13	0.34	0.47	-0.14	744	750	87.2	80.0	34.7	36.9

Lower Rates

Similar Credit Characteristics

# Lower Mortgage Rates and Similar Credit Risk Attributes

## Purchase-Money Mortgages Only

Median Values and Differences in Medians

Geography	Interest Rates			Rate Spread			Credit Score (First Applicant)		Combined Loan-to-Value (CLTV) Ratio		Debt-to-Income (DTI) Ratio	
	Credit Unions (%)	Other (%)	Difference	Credit Unions (ppts)	Other (ppts)	Difference	Credit Unions	Other	Credit Unions (%)	Other (%)	Credit Unions (%)	Other (%)
All USA	4.63	4.75	-0.13	0.28	0.37	-0.09	757	759	90.0	85.0	35.8	37.9
Metro Areas	4.63	4.75	-0.13	0.27	0.37	-0.09	757	759	90.0	85.0	35.8	38.0
Non-Metro Areas	4.63	4.75	-0.13	0.37	0.47	-0.10	747	753	90.0	89.4	34.6	36.6

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  $\leq$ \$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