



Credit Union  
Mortgage Association

**“HarmonyLoan”**

-

**A Great Loan That Can  
Get Even Better**

Credit Union Mortgage Association • [CUmortgage.net](http://CUmortgage.net) • 800.231.8855

# What is a “HarmonyLoan”?

- A rate reset mortgage that takes the place of a traditional refinance
- Allows members to take advantage of lower interest rates without the hassle and cost of refinancing
- Members manage their mortgage online using state-of-the-art servicing technology
- Reduce the interest rate and/or extend the fixed portion of an ARM with the “click” of a button



Credit Union Mortgage Association

# What is a “HarmonyLoan”?

- **An unique and innovative product that helps credit unions:**
  - **Add New Loans** – Increase mortgage production with a product not offered by other lenders
  - **Retention** – Curb portfolio run-off and maintain the member relationship
  - **Increase Income** – Earn a slightly higher yield than with a traditional mortgage loan



Credit Union Mortgage Association

# How it Works

- Offers the member the ability to do an automatic reset to their interest rate and/or the fixed-term portion of their ARM
- Only offered on credit union-held loans
  - ARMs (5/1, 7/1, 10/1)
  - Can also be offered on fixed rate products
- The maturity date and principal balance do **NOT** change so future rate resets do not have to be recorded



# How it Works *(continued)*

- **Terms and conditions of the HarmonyLoan are written into the loan documents and are a part of settlement so no new or additional paperwork is required in the future**
- **Members manage their own reset through our state-of-the-art web technology**
  - **A simple “click” will lock in new terms (rate & fixed period)**
  - **Must wait 6 months after closing before the first opportunity to “click” (reset)**
  - **After first 6 months can only “click” every 120 days**
  - **Loan must be current with NO late payments in past 12 months**
  - **At origination the initial rate is .25% above-market rate (.125% excess yield to the credit union, .125% Harmony/servicing fee)**



# How it Works (continued)

- At time of first reset (and all future resets) the “Harmony” rate will be .50% above market rate (.25% excess yield to credit union, .25% Harmony/servicing fee)
- What does the member get when they “click”?:
  - A new rate (possibly lower, but could stay the same or be higher, depending on market conditions)
  - A new fixed rate portion of their ARM. For example, if they have a 7/1 ARM and after 3 years they “click”, they get a new rate (market + .50%) fixed for another 7 years



# How it Works (continued)

- If resetting rate downward, rate must improve by at least .25%
- Member can also “click” for a higher rate to extend the fixed-rate portion of an ARM
- It’s not about resetting the rate up or down, or extending the fixed rate period of the loan, it’s about giving the member the flexibility to manage their own mortgage loan in exchange for a slightly above market rate



# Examples

**Loan Type: 5/1 ARM**

**Rate at Time of Origination: 4.00%**

## Scenario #1 – Market rates have decreased

- Member originates HarmonyLoan at 4.25% (market rate + .25%)
- After 3 years market rate is 3.50%
- Member checks web site periodically and determines now is the time to take advantage of lower rates and “clicks” to reset their loan:
  - Their newly reset rate is 4.00% (market rate + .50%)
  - The fixed rate portion of their ARM is reset and is fixed for 5 more years
  - Credit union retains their investment at a .25% above-market yield and the member relationship



**Credit Union Mortgage Association**



# Examples (continued)

**Loan Type: 5/1 ARM**

**Rate at Time of Origination: 4.00%**

## Scenario #2 – Market rates have remained unchanged

- Member originates HarmonyLoan at 4.25% (market rate + .25%)
- After 3 years market rate is still 4.00%
- Member's circumstances have changed and it now appears likely they will be in their home longer than they initially anticipated. Member determines that now is the time to extend the fixed rate period of their loan. Member "clicks" to reset their loan:
  - Their newly reset rate is 4.50% (market rate + .50%)
  - The fixed rate portion of their ARM is reset and fixed for 5 more years
  - Although their modified rate is .25% higher than their original rate, that new rate is now fixed for 5 more years
  - Credit union retains their investment at a .25% above-market yield and the member relationship



**Credit Union Mortgage Association**

# Examples (continued)

**Loan Type: 5/1 ARM**

**Rate at Time of Origination: 4.00%**

## Scenario #3 – Market rates have increased

- Member originates HarmonyLoan at 4.25% (market rate + .25%)
- After 3 years market rate is 10.00%!
- Member checks web site and determines now is NOT the time to “click”. Since member did NOT “click”:
  - Their rate remains unchanged at 4.25% (if they did “click” their new rate would be 10.50%!)
  - Three years of the five year fixed rate portion of their ARM has already passed, their existing rate of 4.25% will stay fixed for the next two years
  - No change to credit union’s original investment
  - Credit union has earned .125% above market return for life of loan
  - Loan will re-price as per the terms and conditions of the original note



**Credit Union Mortgage Association**

# HarmonyLoan Web Site

**John Smith**  
**123 Main Street**  
**Fairfax, VA 22031**

Principal Balance            \$370,026.16  
Remaining Term of Loan      332 (months)  
Eligible for Modification:    Yes

## Current Loan Information

Rate	5.00%
Current P&I	\$2,065.69
Real Estate Taxes	\$ 405.23
Hazard Insurance	\$ 29.08
Other	\$ <u>0.00</u>
<b>Total Payment</b>	<b>\$2,500.00</b>

## “HarmonyLoan” Reset Information

“Harmony” Rate	3.75%
Modified P&I	\$1,792.52
Real Estate Taxes	\$ 405.23
Hazard Insurance	\$ 29.08
Other	\$ <u>0.00</u>
<b>New Payment</b>	<b>\$2,226.83</b>

Remaining Term of Fixed Rate:    56 months

New Fixed Rate Term:            84 months (7 years)

**Monthly Reduction in Payment: \$273.17**

[Click To Request Reset](#)

\*\* Reset subject to verification, certain terms and conditions apply



**Credit Union Mortgage Association**

[www.CUharmonyLoan.com](http://www.CUharmonyLoan.com)

# Benefits to the Credit Union

- An above-market yield of .125% upon origination
- An even better yield of .25% above market should the member exercise their automatic reset feature
- Member / loan retention
- Reduced internal paperwork
- More cost-efficient origination process
- Prevents “churning” within the portfolio
- Bottom line: With the HarmonyLoan you keep your investment with an additional yield of .25%



Credit Union Mortgage Association

# Benefits to the Member

- **An automatic rate-reset option**
- **Fast : No additional paperwork**
- **Easy: Member manages their own loan with our state-of – the-art web technology and decides when they want to “refinance”**
- **Quick: Just a “click” and the loan is reset!**
- **Cost-efficient: Member does not incur any costly refinance fees:**
  - **NO closing costs**
  - **NO lender fees**
  - **NO attorney/settlement fees**
  - **NO new loan closing to attend**
  - **Retention of equity**



Credit Union Mortgage Association

# Summary

The HarmonyLoan is essentially the same as a refinance, only better for both the credit union *and* the member.

Example: In the case of a traditional refinance, a member with an existing 7/1 ARM at 5.50% wants to refinance and current market rates are 4.00%. That member is going to refinance and the loan will either: 1) Go back into the portfolio (if you choose to hold the loan) at market rate of 4.00% or 2) If sold on the secondary market, loan will pay off and the credit union will lose the investment. With a HarmonyLoan the credit union:

- Retains their investment
- Retains the member relationship
- Gains an above market yield on a “new” investment (7/1 ARM @ 4.50%)



Credit Union Mortgage Association



# Credit Union Mortgage Association

# Thank You

This presentation is available online at:

**[www.CUMainfo.com](http://www.CUMainfo.com)**