

# A New Asset Class for Credit Unions: The 80/18/2 Mortgage and Diversified Home Equity Lending

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Many Millennial and Gen Z consumers remain priced out of the homebuying market due to rising housing costs, elevated mortgage rates, economic uncertainty, and the high down payments or private mortgage insurance often required by traditional mortgage products.

What if credit unions could offer a low-down-payment mortgage with no PMI, generate attractive yields, and potentially reduce concentration risk at the same time?

Credit unions have long distinguished themselves through prudent underwriting, member alignment, and conservative balance sheet management. Yet even well-underwritten mortgage portfolios remain exposed to one unavoidable reality: housing market volatility.

Members increasingly require high-LTV financing as home prices and living expenses rise faster than incomes. At the same time, credit unions must carefully manage capital, protect their balance sheets, and compete with FHA and PMI-based conventional mortgages.

The question for credit union leadership is not whether to grow mortgage lending—but how to grow while improving risk-adjusted returns. A capital-efficient 80/18/2 mortgage structure, combined with a broader housing-risk diversification framework and a complementary product called Home Secure, may offer a disciplined path worth exploring. Together, these structures introduce the possibility of something unusual in housing finance: a high-yield mortgage and home-equity asset with expected losses comparable to prime mortgage credit.

## THE 80/18/2 MORTGAGE STRUCTURE

Mortgage credit risk can be reduced not only through underwriting discipline, but also through diversification embedded within the mortgage structure itself.

### **The basic design is straightforward:**

- 80% first-lien mortgage
- 18% subordinated second-lien mortgage
- 2% borrower down payment

The first mortgage is priced competitively with the market. The subordinated 18% second lien carries a higher contractual coupon—typically around 8.5% in illustrative examples. Despite the higher second-lien yield, the borrower's combined payment can remain competitive with existing high-LTV financing options.

**Typical borrower outcomes may include:**

- Payments near parity with FHA loans
- No mortgage insurance premiums
- Monthly payments often \$75–\$125 lower than typical PMI-based 97–98% LTV loans (depending on PMI pricing)

**Attractive Yield with Prime-Like Expected Loss:**

The 18% second mortgage can generate roughly an 8.5% yield while modeling indicates a through-the-cycle lifetime expected loss of approximately 15–20 basis points.

This modeling reflects the potential benefits of diversification across housing markets, borrower incentive alignment created by the subordinated structure, and historically low loss severity on second liens when first mortgages remain performing.

That loss level is broadly comparable to prime mortgage credit performance. Historical loss experience on prime conventional mortgages has typically ranged between roughly 10–30 basis points through the credit cycle depending on underwriting standards and housing market conditions (sources: FHFA, Urban Institute mortgage credit studies).

## THE ROLE OF HOUSING DIVERSIFICATION

Housing markets do not move uniformly. National housing indexes tend to exhibit smoother behavior than individual homes, while a single property can diverge meaningfully from broader metropolitan trends.

Academic housing research has consistently shown that diversification across sufficiently large pools of properties can materially reduce volatility relative to exposure to a single home. Spread exposure across many housing markets, and the volatility inherent in owning any one property begins to smooth out.

**Key implications include:**

- Individual home prices are significantly more volatile than diversified housing indexes
- Diversification across markets can reduce volatility by roughly 75–80%
- Lower volatility reduces the likelihood of concentrated catastrophic losses

Importantly, underwriting standards remain fully under the control of the originating credit union. Diversification complements underwriting discipline rather than replacing it.

For credit unions, diversification-based structures may offer an additional benefit: the ability to prudently expand high-LTV lending while managing the concentration risks traditionally associated with such lending. In an environment where members increasingly need higher leverage to purchase homes, this may allow credit unions to compete more effectively with FHA programs while maintaining conservative credit discipline.

When thoughtfully designed, a diversified mortgage framework may allow lenders to achieve high effective loan-to-value financing without reliance on traditional mortgage insurance while maintaining modeled credit discipline.

## **HOME EQUITY LENDING OPPORTUNITY**

The same diversification framework can potentially be applied to home-equity lending. Loans created under such a structure could be:

- Held on balance sheet
- Participated across credit union networks
- Sold into secondary markets once sufficient scale develops

Home equity loans and HELOCs already represent one of the most attractive segments of consumer lending due to strong borrower profiles, secured collateral, and historically low loss rates.

Combining home-equity lending with diversified housing exposure may allow lenders to originate high-yield home-equity assets with unusually stable expected-loss characteristics.

Over time, such structures could contribute to the development of a new housing credit asset class.

## **INTRODUCING HOME SECURE**

Home Secure is a housing-risk diversification program designed for existing homeowners.

Instead of being fully exposed to the performance of a single property, participants gain exposure to a broader housing index through a diversification pool that aggregates housing performance across a large number of geographically distributed homes.

This structure can provide:

- Downside protection during housing downturns
- Mortgage payment stabilization in severe market stress
- Greater financial resilience for homeowners

By stabilizing borrower financial outcomes during housing downturns, such a structure may also reduce catastrophic default risk, potentially strengthening borrower credit profiles when they later seek to refinance or purchase a new home.

For credit unions, Home Secure can function as a member-protection service, a complement to home-equity lending, and a long-term relationship product for homeowners.

## **SECONDARY MARKET CONSIDERATIONS**

Institutions often hesitate to adopt new structures because of balance-sheet liquidity concerns. One approach is to pair initial loan originations with conditional secondary-market interest, allowing institutions to originate loans once investor appetite is confirmed.

As loan volumes grow, diversified mortgage or home-equity pools could potentially be aggregated and sold through private whole-loan transactions or securitization structures.

## **CONCLUSION**

Innovation in mortgage finance should proceed cautiously through pilot programs, transparent modeling assumptions, and clearly defined underwriting parameters.

If the numbers hold under scrutiny, diversified housing finance structures could meaningfully expand credit access while improving risk-adjusted returns for lenders.

The combination of high-LTV access for borrowers, strong yield characteristics for lenders, and diversification-driven risk reduction raises the possibility that a new category of housing credit asset could emerge within the credit-union system.

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