

Employer-Based Homeownership Programs

Case Study: Tyson Workforce Home Benefit Program

November 2004

Part I: Overview

Program Location: Approximately 200 Tyson sites in 22 states

Program Model: Through the Tyson Workforce Home Benefit Program, the Tyson Credit Union, a division of 66 Federal Credit Union offers Community Gold mortgage loans and forgivable second mortgages to Tyson Food, Inc. employees. The credit union contracts with Balance Financial Fitness to provide pre- and postpurchase counseling and early delinquency intervention at no cost to members.

Program in Operation: Six months

Program Scale: With currently available down-payment assistance, the program can make 75 to 80 loans. When the available funds have been exhausted, the program managers anticipate being able to obtain additional funding. They estimate that 6,000 to 7,000 employees meet the requirements of the program and are interested in purchasing homes.

Key Partners:

- Tyson Foods, Inc. (Tyson)
- Tyson Credit Union
- Balance Financial Fitness (Balance)
- National Credit Union Foundation (NCUF)
- Freddie Mac

Who Was Interviewed:

- Mark Wilburn, CLO, 66 Federal Credit Union
- Jeannine Moore, Balance Financial Fitness

Key Lessons:

- Despite the challenges involved, Tyson executives considered it essential to introduce the program organizationwide. Tyson Credit Union considered starting out with a smaller pilot program, but decided that it was important to avoid appearing to give any employees preferential treatment.
- One of the biggest challenges in running the program has been getting the information out to Tyson's numerous employees and ensuring that they understand in detail how the program works (especially the screening and mandatory financial education provided by Balance Financial Fitness).
- At 10 percent, the loan approval rate has been somewhat below what was hoped for. Additional financial counseling and the credit rehabilitation assistance offered by Balance may help to raise this figure.

- The high level of enthusiasm from the Tyson’s CEO and his continuing support for the program have been vital elements in its success.

Part II: Background and History

Key Partners, Roles, and Responsibilities

- Tyson Foods, the sponsoring employer, is a large meat-processing firm operating at 200 sites in 22 states. Initially a poultry producer, Tyson has expanded into beef, pork, and frozen Mexican food and runs numerous divisions. Tyson management has given enthusiastic support to the program, which is managed through the Tyson Credit Union. The company has contributed \$75,000 for forgivable second mortgages.
- The Tyson Credit Union is a division of the 66 Federal Credit Union based in Bartlesville, Okla. The Tyson branch, open since 1995, is located in Springdale, Ark., near the Tyson Foods headquarters. The credit union is fairly small compared to other financial institutions at \$370 million in assets. Tyson Credit Union administers the Workforce Home Benefit Program, and has contributed \$75,000 for forgivable second mortgages. It also offers employees small (\$300 to \$500) loans, with a maximum 18 percent interest rate; and checking products geared to a lower-income population, such as checkless (debit card) checking products. The credit union maintains a website where Tyson employees can apply for loans, apply for the Workforce Home Benefit Program, and find the answers to frequently asked questions. The Tyson Credit Union also offers eight workplace kiosks and a limited number of ATMs.
- The National Credit Union Foundation has awarded the program a \$75,000 grant for the purpose of increasing and supporting homeownership among Tyson’s lower-income employees, in the form of forgivable second mortgages.
- Balance Financial Fitness has a contract with Tyson to provide financial counseling services to credit union members (the credit union pays Balance a flat fee based on its membership numbers). Incorporated in 1999, Balance is an affiliate of Consumer Credit Counseling Services in San Francisco. The company currently has 160 credit union partners and 10 employee assistance program (EAP) partners. As a national company, Balance provides phone counseling via a toll-free number. For the home benefit program, Balance provides mandatory pre- and postpurchase counseling and early delinquency intervention. In addition, all employees turned down for a loan by the program are referred to Balance. Balance Financial Fitness also offers other services to Tyson Credit Union members, including help with budgeting and credit rehabilitation.

How the Program Developed

The idea for the program started with a conversation that took place four years ago between a representative of Fannie Mae and the head of Tyson’s Human Resources department. The credit union, however, sells only to Freddie Mac (although it is Fannie Mae–certified). Shortly thereafter, the head of the HR department left Tyson, and the idea was shelved.

In August 2002, the idea was raised again at a lunch attended by representatives of the credit union's mortgage origination department and Freddie Mac. At a subsequent meeting, a possible program was sketched out. The resulting outline was presented to Tyson's top three Human Resources executives in November 2002; several months were then spent building the core of the program. It was finally presented to CEO Johnnie Tyson, who was greatly excited by the program's potential.

The major stumbling block was the financial counseling portion of the program (a Freddie Mac requirement). Freddie Mac typically requires the counseling agency to provide face-to-face services. However, given some of Tyson's remote locations and the sheer number of locations, finding certifiable agencies to serve each of its plants seemed virtually impossible. The credit union knew about the national services of Balance Financial Fitness, an over-the-phone credit counseling agency, and introduced the firm to Freddie Mac. Making an exception to its face-to-face rule, Freddie Mac certified Balance about six months later.

Balance was excited by the opportunity because it fit so well with its mission. The company already offered the required counseling as a free-standing core product, but this was the first time that counseling had been packaged into a program.

In summer 2003, the completed program was taken to Tyson's attorneys for review. Late in 2003, the program was approved, and a grant was obtained from NCUF. The program was officially announced in February 2004.

Part III: The Home Ownership Program Model

How the Program Works

To be eligible for the program, employees must have worked for Tyson for at least two years. The maximum income allowed per household is \$54,000; applicants cannot have bad credit. Employees may use alternative documentation for sources of income and credit (such as rent-to-own payments). Some sort of picture ID is required; Tyson plant verification IDs are acceptable. Applicants must provide Social Security numbers.

For loans under \$80,000, borrowers must contribute 2 percent of the loan amount up to a maximum of \$1,000; for loans over \$80,000, they must contribute 2 percent. The average price of homes purchased under the program — most of them in rural areas — is \$60,000; the most expensive home financed to date cost \$120,000. First mortgages may be issued for up to 97 percent of the value of the home. Private mortgage insurance is required.

Second mortgages are forgivable at 20 percent per year over five years, as long as the borrower remains employed at Tyson and lives in the home. Second mortgage amounts are not limited; instead, the amount of the loan provided is driven by the debt-to-income ratios, the price of the home, and the amount needed by the employee.

For forgivable loans, Tyson Credit Union will be required to issue 1099s for one-fifth of the amount (i.e., it will be considered taxable income).

Balance Financial Fitness is available to all Tyson Credit Union members, and pre- and postpurchase counseling is compulsory for members taking loans under the Workforce Home Benefit Program. Members receive certificates for successful completion of the prepurchase counseling.

The process for applicants is as follows:

- Employees apply for the program and are qualified. Applications can be made online, at credit union kiosks in eight plant locations, by phone, or via conventional mail. The credit union Web site provides answers to frequently asked questions about the program. By the time the loan closes, the borrower must have established membership in the Tyson Credit Union.
- Employees who are unable to qualify for a loan are referred to Balance Financial Fitness in order to clear up any credit issues or work toward the required contribution.
- The accepted applicant receives a prequalification letter from Tyson Credit Union and prepurchase counseling from Balance Financial Fitness.
- The borrower finds a suitable home. From this point on, the process is the same as that followed with a conventional mortgage loan.
- Balance Financial Fitness provides postpurchase counseling to the borrower.

Program Management and Marketing

The Tyson Workforce Home Benefit Program is managed by the Tyson Credit Union. All loans are manually underwritten; Freddie Mac reviewed and approved the underwriting standards used, and there are two underwriters on staff. The credit union sells first mortgages, one at a time, to Freddie Mac.

Tyson Foods promotes the Workforce Home Benefit Program through its regular corporate communications, including workplace posters, articles in employee newsletters, activities of the Human Resources Department, and benefit counseling. The program is discussed in new employee orientation, as is the Tyson Credit Union.

Balance Financial Fitness provides the credit union with some marketing tools, such as articles and mailing inserts, through its partner relations team. For the most part, however, Balance leaves the marketing of its program up to its partner.

Part IV: Program Goals and Business Case

Program Goals

The overall goal of the Tyson Workforce Home Benefit Program is to help Tyson's workers, and, in particular, to reward loyal employees. The program represents Tyson's largest initiative of this type to date.

The composition of Tyson's workforce is such that a homeownership program was badly needed. Of its 135,000 employees, 60 percent make less than \$20,000 a year, 20 percent make between \$20,000 and \$30,000, and 20 percent earn more than \$30,000. The lower-paid employees tend to be Hispanic and Asian; many of them are recent immigrants. Most employees do not have access to a personal computer or telephone service and do not understand the concept of checking. Financial education, therefore, is an important part of the program.

The Business Case for the Program

Tyson believes that the program will help it to build and retain a stable, loyal workforce, resulting in lowered expenses in the long term. Currently, hourly employees have a turnover rate of between 60 percent and 70 percent in the first 90 days of employment. (Employees cannot join the credit union until they have been employed by Tyson for at least 90 days.)

Tyson also hopes to attract new employees, and wants to be known as an employer of choice. It calls its employees "team members" corporate-wide.

Part V: Program Outcomes

Program Results

As of October 15, 2004 the program had received 382 applications, had closed 13 loans for \$905,500 with forgivable seconds of \$35,666. The program had approved another 22 applications for a total of \$1,564,568 with forgivable seconds of approximately \$61,000.

Thus far, the loan approval rate is around 10 percent. (For the general population, the approval rate is 37 percent.)

Because the program is still in its early stages, the portfolio has performed well. Interest in the program is strong throughout the Tyson sites, and Balance reports a good response to its services. Overall, 40 percent of clients counseled at Balance eventually go on to obtain mortgages. It remains to be seen whether this statistic will carry over to the Tyson program.

Part VI: Lessons Learned

Lessons, Challenges, and Best Practices

- Despite the challenges involved, the company considered it essential to introduce the program organizationwide. Tyson Credit Union considered starting out with a smaller pilot program but decided that it was important to avoid appearing to give any employees preferential treatment.
- One of the biggest challenges in running the program has been getting the information out to Tyson's numerous employees and ensuring that they understand in detail how the program works (especially the screening and mandatory financial education provided by Balance Financial Fitness).
- Some operational challenges were involved in the information sharing between Balance and Tyson Credit Union. However, the two companies have developed a release protocol in which

the credit union gives applicants information release forms to be provided to Balance early in the process.

- The loan approval rate, 10 percent, is somewhat below what was hoped for. Additional financial counseling and the credit rehabilitation assistance offered by Balance may help to raise this figure.
- The high level of enthusiasm from the Tyson Foods CEO and his continuing support for the program have been vital elements in its success.

Issues for Replication or Expansion

While the mortgage loan program in itself is not necessarily unique, the partners and the challenges they face are unique to large, multisite employers.

Additional grant money for forgivable second mortgages will be needed for program expansion. One possibility is to extend the program locally, outside of the employer base, to the Bartlesville, Okla., community (on a restricted basis).

As the program matures, Tyson should also attempt to obtain more data on its results. It would be useful to know, for example, how many of the employees who were turned down for loans by the program took advantage of the referral to Balance Financial Fitness for financial counseling and credit rehabilitation assistance.

Tyson's commitment to the program remains high.