DE NOVO MORTGAGE **LENDING OPPORTUNITIES**

Leaders in small- to mid-sized financial institutions (FIs) are quite often handicapped in the struggle to compete for the coveted primary financial institution (PFI) relationship with their customers, because it requires significant resources to compete in all sectors. This includes deposits, consumer, commercial, business and of course, home lending.

For community banks and credit unions, competition for customers has never been fiercer. Because consumers consider most banking products interchangeable, nothing prevents a customer or member from going elsewhere for a financial product or service. In fact, there's evidence consumers are switching FI's more frequently. This reduces your share of wallet and reduces your chances of becoming that consumer's PFI. But there is one banking product with the power to hold customers in house—mortgage loans.

The home mortgage is more than a consumer's largest financial transaction. For the FI, a mortgage offers a wealth of consumer data and the opportunity to cross sell every other product the institution offers. FIs that support their customers' home financing needs are also more likely to garner the coveted PFI spot.

And if there was ever a good time to start a home financing department, it's now.

WHY MORTGAGE LENDING IS MORE RELEVANT THAN EVER

In a data-driven marketing era, a borrower's mortgage information is a gold mine that every financial institution should embrace. While mortgage rates are their highest point in over 20 years and refinance volume is down over 85% since 2020, the competition among lenders is getting thinned out. Meanwhile, it is estimated that home lending activity will grow by 10% next year. This constitutes a fantastic opportunity for small- to mid-sized FIs.

NAVIGATING THE CURRENT MORTGAGE LANDSCAPE: OPPORTUNITIES AHEAD

When properly implemented, a well-managed portfolio home lending program maximizes shareholder values and profitability and delivers superior ROI. Portfolio loan programs can deliver interest rate spreads that provide balance sheet assets with superior margins. Meanwhile, programs like ARM products, with fixed periods of five years or less, can help guard against long-term interest rate risks.

Establishing a secondary market program can complement a lender's portfolio program as well. Secondary market loans, which are typically sold immediately after funding, provide two to three percent of the loan amount in one-time fees. They also support the specialized needs of your customer base for slightly riskier, high LTV lending programs, such as FHA or VA programs, which require limited cash to close.

However, it can be a challenge for an FI with limited resources to implement home lending that is profitable, provides great service, and is in compliance with all relevant regulations. So how can Fis compete against large, national lenders?

De Novo Mortgage Lending Opportunities (continued page 2)

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DE NOVO MORTGAGE LENDING OPPORTUNITIES (continued from page 1)

THE PITFALLS OF IN-HOUSE MORTGAGE STAFFING

When the board of a bank or credit union realizes the opportunity that home mortgage lending offers their institutions, the first impulse is to staff up. That can work if experienced executives are hired and given the resources required to develop their departments.

But too often, the right leaders are not available or are too expensive, and the resources to create a functional mortgage department are not available. Executive recruitment for mortgage lending is difficult at all times, as typically the biggest companies with the highest budgets are able to hire the best people. Competing for talent is very expensive, too.

A well-managed mortgage operation also requires a blend of financial expertise, compliance experience, technology services, and of course, sales. Even then, there are risks. A single error can easily cost tens of thousands of dollars to cure. Poor service can give the FI a black eye. And no lending executive wants to tangle with a regulator over an irregular practice.

The other problem FIs face is staffing properly during the housing market's ups and downs. Not only do highly paid staff create significant overhead, but right-sizing after an industry downturn carries with it significant reputational risk that most institutions would rather avoid.

In the past, these problems have been major hurdles that kept many institutions from capitalizing on home finance opportunities. But today, there is a solution.

WHY OUTSOURCING IS THE KEY TO EFFECTIVE MORTGAGE LENDING

Mortgage process outsourcing used to be centered around large offshore operations managed by global companies. By applying the same economies of scale that have been successfully deployed in the manufacturing industry, these companies often try to provide outsourced home finance departments to banks, but are rarely successful.

Culture differences between offshore staff and American consumers often make effective communication difficult, which is deadly for a product as complex as a home mortgage. And until recently, technology was not sufficiently advanced enough to provide the required automation or virtual file collaboration to run an efficient mortgage business.

EMBRACING TECHNOLOGY AND COLLABORATION FOR MORTGAGE SUCCESS

Today, however, a convergence in online collaboration and automation technologies have given FIs an unfair advantage. In fact, it is now easier than ever for FIs to leverage their customer base and low cost of funds to establish a home lending program that simultaneously supports both portfolio and secondary market loan products.

Additionally, new software-as-a-service (SaaS) options have leveled the playing field for FIs. As SaaS offerings have matured, the level of configuration and maintenance has evolved to provide lenders access to complex and highly automated systems. SaaS solutions can now combine mortgage loan fulfillment services in a manner in which FIs can fully outsource their mortgage banking needs, or be customized to complement what is already working. These solutions are very robust, and include detailed components that were unavailable just a few years ago, even with deep resources.

Seizing the SaaS Advantage in Mortgage Lending

The benefits offered by a well-developed and expertly configured SaaS solution include:

- Increased Customer Satisfaction
- Reduced Regulatory and Compliance Risk
- Reduced Technology Risk
- Reduced ROI Risks
- Reduced Staffing and Personnel Risks
- Reduced Costs
- Increased Bottom-line Profitability

De Novo Mortgage Lending Opportunities (continued page 3)

DE NOVO MORTGAGE LENDING OPPORTUNITIES (continued from page 2)

A NEW ERA FOR SMALL TO MID-SIZED FIS

Small- to mid-sized FIs now have access to comprehensive and customized mortgage solutions that can be implemented for as little as $5,000, with affordable monthly transaction fees based on the number of loans a lender closes—effectively eliminating expensive overhead.

These solutions require virtually no staffing and come with private labeled online tools, communications and documents. Because they are pre-configured and managed to industry best practices, a turnkey mortgage department can be implemented in 30 to 60 days and generate substantial revenue.

These new breed of providers offer technology, fulfillment services and secondary marketing services into a single bundled solution, and are considered strategic partners to FIs.

BEHIND THE SCENES: HOW STRATEGIC PARTNERS EMPOWER FIS

The specialized companies offering these services typically have deep roots in both mortgage banking and technology. By integrating the two, FIs get a strategic partner that leverages the expertise and resources that only the largest and most successful national lenders have implemented.

The result is an efficient process that starts online with applicants and efficiently completes the file documentation, approval and closing process – all in the FI's name.

What's the magic behind the scenes?

TECHNOLOGY INTEGRATION: THE KEY TO EFFICIENT MORTGAGE PROCESSING

A single "database of record" is managed by lending IT specialists that supervise the data collection and workflow systems. This creates a loan manufacturing process that leverages a rules-based engine to deliver the right information to the right person at the right time. This even extends to the collection, management and review of documents.

THE TECHNOLOGY SYSTEM'S COMPONENTS INCLUDE:

- A Point of Sale (POS), otherwise known as an online application. The online application is branded in the FI's name and supports both portfolio and secondary loan programs.
- A Borrower Portal. This tool is used to provide the applicant's loan status and let the borrower see and upload conditions and to message their lender contacts.
- A Loan Origination Platform. This supplies the database of record, supports calculations and compliance review, and is the backbone of automated workflow.
- OCR/ICR. These tools can manage the indexing process or documents and even validate the accuracy of data on them.
- eClosings. Electronic delivery, signing, notary and recording processes are rapidly becoming the standard. eClosings promote workflow efficiency and higher levels of customer service.
- Vendor integrations to support compliance, fraud, closing documents, and of course, Fannie Mae™ and Freddie Mac™ automated underwriting engines. Automated workflow triggers service orders once loan processing milestones have been met, and parses the data from imported files to drive downstream file steps.

Developing these systems requires a significant investment in the right tools as well as expertise in configuring and seamlessly integrating them with third-party software as needed to complete a mortgage loan transaction. By leveraging economies of scale, however, a strategic partner can cost effectively support all of these services across many customers.

De Novo Mortgage Lending Opportunities (continued page 4)

DE NOVO MORTGAGE LENDING OPPORTUNITIES (continued from page 3)

STANDARDIZED YET CUSTOMIZABLE: THE SAAS APPROACH TO LENDING

Proprietary system configurations and workflow are important components of a good SaaS offering. Standardized workflow is implemented and allows lenders to integrate their team members into a larger ecosystem that is filled with process expertise. All of the roles associated with the loan manufacturing system are weaved into a single, compliant process.

When a borrower applies online, the lender's loan officer or business development officer is notified via email or text message. All the lender needs to do is ensure the applicant's data is collected.

Support staff at the strategic partner expertly review, structure and provide an eligibility analysis to the FI. Once the origination process is completed, files are put into work queues for lending specialists to complete their assigned responsibilities.

In the case of portfolio lending, a customized system configuration supports the lender's specific loan documentation requirements, loan conditions, eligibility requirements, loan pricing, and of course, disclosures and closing documents.

Rules-based engines identify how the tasks and documents are adjusted for each of user's role. This means the framework is standardized, yet a lender's specific needs are efficiently accommodated.

REDEFINING SUCCESS FOR COMMUNITY BANKS AND CREDIT UNIONS

Since the 2008 financial crash, banking executives have become very familiar with the concept of "Too Big to Fail." Today, many smaller institutions are learning about "Too Small to Succeed." But now there's a way to turn things around.

SEIZE THE MORTGAGE OPPORTUNITY: BECOME YOUR MARKET'S PFI

With increased loan volumes expected in 2024, don't miss the many advantages that come from offering home finance to your customers or members. To learn more, reach out to NavPros at Inquiries@NavPros.com or 727.536.2000 today.

OFFERING:

- TPO Lending Solutions
- Staffing Augmentation
- Next Gen Technology
- Process Analysis
- Roadmap Planning
- Project Management

Lionel Urban is a technology leader for mortgage banking and has over 100,000 hours of mortgage banking experience since 1987. He serves as the President of Navigator Lending Solutions, a Division of Land Home Financial Services and supports lenders with mortgage Process Analysis, Technology Planning, Project Management and Advisory Board Services.

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