NAVPROS

MORTGAGE BANKING BEST PRACTICES FOR **SMALL TO MID-SIZED FINANCIAL INSTITUTIONS**

Home financing represented a challenging opportunity for financial institutions (FIs) of all kinds in 2023. Volume was off by more than 85% from the highs of 2020, and compressed margins made it one of the most difficult years on record for lenders. Most experts agree that 2024 will offer a slight increase of volume – but only the most resourceful lenders will be profitable. This requires lenders to be efficient, support a broad option of loan programs and to adhere to the ever-changing compliance landscape.

Each lender may approach this differently, but there are best practices that set true leaders apart.

STRATEGIES FOR PROFITABLE MORTGAGE BANKING: LARGE VS. SMALL FIs

While there is no one-size-fits-all solution to profitable mortgage banking, we can group the strategies we see most often. For instance, very large national banks spend millions on advertising, process controls and system automation to support consumer direct, retail, wholesale and correspondent lending channels. Generally, regional and super-regional banks become big retail lenders by focusing their resources on providing a broad suite of products efficiently.

Small- to mid-sized financial institutions typically rely on people, relationships and their industry experience to establish and execute their lending strategy. However, their smaller size often creates a significant challenge to profitable mortgage lending. It's these smaller institutions that have the most to gain by implementing today's best practices to build a profitable mortgage department.

The major difference between these strategies is that larger lenders have more resources, which are invested into projects that leverage their economies of scale. At the same time, the larger an FI is, the less nimble they are.

AN OPPORTUNITY COMMUNITY BANKS AND CREDIT UNIONS CAN'T IGNORE

In a world where consumers are offered every kind of financial service from all kinds of vendors—ranging from the local big box store to their smartphone providers and cable companies—the mortgage loan is still incredibly valuable to traditional bank and credit union bottom lines.

Yet the mortgage transaction is complex. It takes significant expertise and resources to properly originate a home loan. Large FIs spend years changing processes to rapidly evolving technologies. And heavy regulatory oversight has been a significant barrier to entry even for fintech firms that have succeeded with simpler financial transactions.

MAXIMIZING BENEFITS THROUGH EFFECTIVE MORTGAGE LENDING

For now, community banks and credit unions have an advantage. By implementing or expanding a mortgage lending program, the doors are flung open wide to increased fee income, balance sheet assets and to leverage cross sell opportunities for every other product and service the institution offers.

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Mortgage Banking Best Practices (continued from page 1)

EFFECTIVE MORTGAGE LENDING CAN:

- Maximize shareholder value
- Improve FI profitability
- Keep valuable customer relationships in place

Portfolio lending also provides profit from interest rate spreads and creates balance sheet assets, while secondary market programs can provide significant cash flow while the lender retains the customer relationship.

This last point is key. The consumer data provided to the institution during the loan origination process is very valuable. It can be used to build lifelong customer relationships and for effective cross selling with higher customer satisfaction levels.

With limited resources, however, it's a challenge for small- to mid-size institutions to implement a home lending program that is profitable, provides great service to borrowers, and is fully compliant. But it is still possible.

LEVERAGING THE RESOURCES OF OUTSOURCED PARTNER

Smaller institutions can't spend millions on process and technology. They don't have staff to manage the multitude of expertise and vendors required in mortgage lending. They may not even have the internal staff to guarantee lending compliance. But they would still like to enjoy the many advantages that mortgage lending offers.

The key for these institutions is effective outsourcing. Fortunately, it is now easier than ever for small- to mid-sized FIs to leverage their customer base and low cost of funds in order to establish a program which simultaneously supports both portfolio and secondary market loan products.

STRATEGIC PARTNERS: LEVELING THE PLAYING FIELD FOR FIs

New software as a service (SaaS) technology and service offerings are supported today by entities that provide a level playing field for these FIs, allowing them to compete effectively with larger mortgage lenders with an individually crafted set of home finance offerings. An outsourcer's vast resources and expertise are allocated across many FIs to provide nimble, quick access to industry best practices.

These new services are offered and supported by a new breed of strategic partners. Because fees are based on closed loan transactions, these partners are motivated to see their customers succeed with increased loan volume and superior service levels.

Such partners are giving FIs an unfair advantage over independent mortgage bankers and even the large national mega-banks. As their services have matured, the scope of support they provide has broadened and their implementation processes have been vastly streamlined.

Strategic partners now offer refined, turnkey solutions that support the institution's existing products and existing staff in a way that turbocharges their service levels, customer experiences, and most importantly, their bottom-line financials.

Best of all, these services can be implemented within 30 to 60 days with minimal effort and investment. In fact, the investment is so low that implementing these new systems does not require adjustment to annual budgeting processes.

CRITICAL CONSIDERATIONS FOR SELECTING A STRATEGIC PARTNER

Still, choosing the right strategic partner can be a challenge. Mortgage lending requires deep expertise in operations, regulatory compliance guidelines and automation. Each of those have their own unique and challenging components. Furthermore, without a best practices-based approach to the business, no lending operation will be as efficient and profitable as possible. Worse yet, a poorly supported mortgage program could add unnecessary risk to the FI's existing business.

To make it easier to assess the strengths of any potential strategic partner, the FI should focus on those with a track record of successful mortgage lending and that follow a best-practices approach to the business.

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BEST PRACTICES FOR EFFICIENT MORTGAGE LENDING

Discussing the following key issues will allow the FI to quickly assess the capabilities of any prospective partner.

A BIAS FOR COMPLIANCE

Nothing will erode the many benefits that mortgage lending offers faster than noncompliance. One mistake is all it takes. Consequently, having a discussion about how the strategic partner manages compliance is of critical importance.

Managing regulatory change and lending compliance is a complex business. It requires good legal support, experienced lending executives, and often good regulatory technology. Few strategic partners are equipped with an integrated solution that is properly managed.

THE RIGHT LOAN PROGRAMS AND PRICING

Successful lenders offer the types of loan programs that meet the needs of the home buyers in their local markets. This can vary by geography, but also by the expertise of the lender's staff. With the benefit of a strategic partner with deep expertise in mortgage lending, the FI can easily offer a wide range of mortgage products and better meet the needs of its market.

Standard processes the strategic partner should provide include a robust set of secondary market programs which are available from the consumer-facing Point of Sale system (POS) to loan funding, where the vendor can guarantee delivery of FHA, VA, jumbo and first-time buyer programs. This, essentially, covers all the bases.

Advanced Pricing and Eligibility Engines (PPEs) can be configured to support the lender's portfolio programs. The strategic partner should embed the broad selection of loan programs and their associated rates and fees into their loan origination system (LOS), then customize private label rate sheets for the lender and its business development team members each day.

A broad menu of product options should be available to the lender to complement their portfolio objectives through these partnerships. The ultimate product mix will depend upon many factors. Once these decisions have been made, management tools and automation are employed to ensure proper loan underwriting and effective POS automation.

STAFFING CONSIDERATIONS

One of the most significant hurdles that small- to mid-sized FIs face when entering mortgage lending is the limited expertise of existing staff members. That problem goes away with the right strategic partner.

The best strategic partners leverage their resources to support an FI's existing team members. Typically, FI staff members excel at customer service and getting the loan origination process started, but are challenged to complete the underwriting and subsequent processing of the complex loan products. The strategic partner fills in as needed.

Staffing and fulfilment solutions should be integrated to support every facet of the lending process. The activities to complete a loan can now be supported with U.S.-based staffing solutions for all of the tasks associated with accurately and efficiently completing the loan process in a fully compliant manner.

Just like auto industry giants, specialized skills and automation should be well-coordinated to ensure over 750 different tasks and documents are completed during the mortgage loan manufacturing process.

Best practices must be baked into the workflow for each role and the automation tools which support them. This means a lender gets clearly defined job descriptions, customized training and management dashboard reporting to ensure the responsibilities of every role are properly managed. This is critically important for ensuring loan manufacturing process efficiencies and operational scalability.

Mortgage Banking Best Practices (continued page 4)

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Effective operations reporting streamlines the monitoring of staff level productivity, service levels and loan quality. Technology managed by the strategic partner should provide the FI with daily snapshots via email and online dashboards. It is the FI's responsibility to manage their loan origination team members, and it is the strategic partner's role to manage the fulfillment team members.

This process ensures accountability for the entire lifecycle of the loan. These supervision tools are based on real-time information and help remediate bottlenecks, identify areas where additional training is required and, of course, elevate loan quality and service levels.

Additionally, the strategic partner reduces or eliminates the risk that the FI will over-staff when loan volumes are increasing and then be forced to right-size when interest rates rise and loan volumes drop. With a strategic partner working relationship, the staffing fluctuation challenge is managed via vendor service level agreements (SLAs).

PROVEN LENDING PERFORMANCE BASED ON TECHNOLOGY

All of the critical issues we've discussed thus far are supported by good technology. No strategic partner can be effective without a robust technology platform that is configured and managed by technology veterans.

Lenders must accommodate new technology standards to meet the borrower's online collaboration expectations. It requires the right tools to attract consumers online and to offer them the kind of experience that will keep them engaged throughout the loan origination process. Customer satisfaction is closely tied to the technology decisions the lender makes. This requires an easy online application, real-time processing, and seamless collaboration with third party vendors during the origination process.

It becomes the strategic partner's responsibility to support a private labeled solution for an online application and borrower collaboration portal. These tools allow applicants to efficiently start and finish their loan transaction using their smartphone, tablet or PC.

The borrower-facing tools are fully integrated into a web-based loan origination system (LOS) that centrally manages data and documents in a manner that allows "virtual file" collaboration. The LOS is the tool that identifies which tasks must be completed and by which role. It identifies clearly defined steps for each specific role to ensure ordering, tracking and signing off on file requirements are effectively managed. The collaboration seamlessly integrates the automated underwriting (AUS) findings and borrower collaboration into each step as appropriate.

Interfaces with third party services are managed with a combination of FI and vendor credentials. This is critical since today's best practices require two-way integrations that support the highest levels of efficiency. Vendor due diligence and ongoing management fall to the strategic partner.

For example, a flood certification is required for almost every real estate transaction. In a best practices workflow, the flood cert order process is automated based on the progress of the loan. When the document is delivered, its data automatically populates the LOS and any findings automatically trigger applicant disclosures and a request for flood insurance, if applicable.

Best practices require a combination of credit, compliance, fraud, appraisal, pricing engine, and of course disclosure and document processes to be integrated with the lender's LOS. For small- to mid-sized institutions, poor integrations are indistinguishable from "death by a thousand cuts," as a plethora of small issues will quickly deplete the lender's budget and patience. Better to leave this work to the strategic partner. With the right partner, no single third-party integration is insurmountable.

Mortgage Banking Best Practices (continued page 5)

Mortgage Banking Best Practices (continued from page 4)

With limited resources, the typical small- to mid-sized FI is generally considered fortunate if it can just keep its legacy systems operating, not to mention optimized for efficiency and compliance. The strength of a good strategic partner is that technology costs are amortized over many lenders, enabling its technology support resources to be allocated for planned enhancements and system refinements.

SUPPORT FOR THE FI's CHANGING TECHNOLOGY NEEDS

One of the most significant benefits an FI gains by aligning its business with a great strategic partner is support with the vetting and installation of new automation objectives.

The emergence of many new technologies has moved way past the early adoption stage, and they are quickly becoming requirements to support the home lending process. As the technology landscape changes, the FI must be prepared to change with it. Choosing the right new tools can increase efficiency and profitability. Choosing poorly is not an option.

SOME OF THE RECENT INNOVATIONS THAT ARE BECOMING MAINSTREAM REQUIREMENTS INCLUDE:

- eClosings – These tools support eSigning, eNotary, eRecording, and streamline the investor delivery process. Borrowers can now remotely review, sign and immediately deliver documents online and at their convenience.
- Artificial Intelligence (AI) / Machine Learning – These new tools drive automated workflow that escalates the most important work and simplifies best practices workflow. With simple tasks automated, complex tasks are moved to the staffing experts.
- OCR/ICR – Documents received from borrowers are automatically indexed and reviewed for accuracy. Exceptions get surfaced to the processing team, thereby leveraging their time to focus on the real work of analyzing key documents, ratios and lending guideline requirements.

When new technologies are introduced, an experienced team that fully understands the lender's existing process is required to implement them effectively. Successful implementations are also dependent on good user training and support. Vendor-tuned learning management systems (LMS) can ensure users are trained to understand and support a standardized workflow.

Putting this all together requires a plan. Without a plan or the resources to incorporate a robust suite of technology tools, small and mid-sized FIs will continue struggling to reach their home lending objectives while watching their existing technologies slide out of date.

SUPPORT WITH THE TRANSITION INTO INDUSTRY BEST PRACTICES

Again, there is no one-size-fits-all solution to profitable mortgage lending. Each FI must tailor its program to its own capabilities, its appetite for risk, and the needs of its prospective customers and members. However, having an experienced strategic partner to develop the program will save time and ensure that the program ultimately succeeds.

It all starts with the planning process. Policies, procedures, job aids, job descriptions and implementation project plans can all be standardized for an FI by a strategic partner. This includes customized support for the FI's portfolio programs that is specific to the fees, program terms, forms and file documentation requirements.

With the right strategic partner, the information required to complete the system configuration is collected on a questionnaire that clearly defines the setup of programs, users and FI-specific information. A project plan is then established by the strategic partner to ensure all of the steps to set up the systems, train users, and test the processes are clearly defined and transparent to all stakeholders.

Mortgage Banking Best Practices (continued page 6)

Mortgage Banking Best Practices (continued from page 5)

TYPICAL COMPONENTS THE PROJECT PLAN WILL ADDRESS INCLUDE:

- Loan Product Mix and Pricing Requirements (Portfolio and Secondary Market options such as Agency, FHA and VA products)
- Technology Suite (Consumer Direct, LOS, Imaging/ Paperless, eClose)
- Third Party Vendor Management
- System Configuration and Management
- Staffing and Training
- Supporting a Pilot Program for Program Validation
- Post-live Collaboration and Refinement Processes

Managed technology systems are clearly the next step in the evolution of mortgage lending. This solution is the right option for the vast majority of small to mid-sized FIs, because the end results are predefined and already battle tested.

With the right strategic partner, the process is already in place and hosted by the partner. This means an FI can see what they are getting before they even make a contractual commitment. Even better, they have a partner that manages the entire life cycle of mortgage lending. This reduces the possibility of issues that arise with lending program gaps, and ensures the FI ends up with a successful, profitable lending program.

TRANSFORMING YOUR INSTITUTION WITH STRATEGIC MORTGAGE SOLUTIONS

To learn more, reach out to NavPros at Inquiries@NavPros.com or 727-536-2000 today.

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