EXPERT TAKES: A COMMUNITY LENDER'S BLUEPRINT FOR NON-AGENCY NICHE LENDING AND INTEREST RATE RISK MANAGEMENT

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EXECUTIVE SUMMARY

For community banks and credit unions, home lending remains one of the most powerful yet frequently underleveraged tools for asset growth, relationship deepening, and community reinvestment. The strategic opportunity is not only in competing for conventional, agency-eligible mortgages. It lies in building a thoughtfully managed portfolio of non-agency, niche loans that generate premium yield while serving borrowers and property types that national lenders cannot or will not touch.

According to 2024 Home Mortgage Disclosure Act data, nonbank mortgage lenders now account for approximately 65 percent of all U.S. mortgage originations, up from less than 50 percent a decade ago.1 Community institutions are losing share not because they lack the capability, but because they lack a clearly defined, executable strategy, particularly in the niche lending space.

This whitepaper outlines a practical blueprint for how community lenders can build a portfolio of yield through five non-agency niche program categories, avoid the interest rate risk that undermines long-term profitability, and execute this strategy efficiently through the right operational partnership. NavPros, a division of Land Home Financial Services and a top 50 U.S. mortgage lender, provides the expertise, product access, compliance infrastructure, and scalable fulfillment services community institutions need to win in this market.

THE MARKET OPPORTUNITY: WHY NON-AGENCY NICHE LENDING?

The conventional mortgage market is increasingly commoditized. Rate comparison is instant, margins are compressed, and speed expectations favor the well-capitalized national lender or fintech disruptor. Competing solely on conforming products is a race to the bottom for most community institutions.

The data behind this shift is clear:

- Nearly 45 percent of borrowers shop multiple lenders before committing to a loan.[2]
- Over 70 percent of borrowers choose the lender who responds to their inquiry first.[3]
- Eighty-seven percent of homebuyers work with a real estate agent who heavily influences lender selection.[4]

The better strategic question is: where can a community lender win because of who it is, not despite it? The answer is in niche, portfolio-held loans that require local market knowledge, relationship judgment, and flexibility that agencies and national lenders cannot offer.

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When underwritten correctly, these loans carry meaningful yield premiums, often 50 to 200 or more basis points above conforming rates, while serving borrowers who become deeply loyal, long-term relationships.

THE FIVE NICHE PROGRAM PILLARS

Each of the five program categories below represents a distinct segment of the lending market where agency guidelines create a hard stop. That hard stop is the community lender's opportunity. When these loans are underwritten with local market knowledge, appropriate collateral discipline, and sound income analysis, they generate premium yield while building the kind of borrower relationships that define a community institution's long-term franchise value.

1. Property Type: Agricultural, Land, and Non-Standard

Fannie Mae and Freddie Mac exclude vast categories of real property from their purchase programs, including raw land, agricultural parcels, farm and ranch properties, properties with non-permitted improvements, and structures that fall outside standard residential use definitions.[5] For community lenders operating in rural and semi-rural markets, this exclusion is not a limitation — it is a competitive advantage. The borrower who owns 40 acres and wants to build a home, or the farmer who needs to refinance working land, has no pathway through a national lender. That borrower belongs to the institution that understands their operation, their market, and their income cycle.

Agricultural and land lending requires a different underwriting lens than conventional residential. Farm income is seasonal, tied to commodity markets, and often reported in ways that confuse automated underwriting systems.[6] A lender who understands row crop rotation, cattle operation margins, or orchard yield cycles can make sound credit decisions that a national bank or fintech platform simply cannot replicate.

Non-permitted improvements present a different but equally common challenge. Across the country, millions of homes have garages converted to living space, additions built without permits, or detached structures used as dwelling units without formal approval. A community lender who underwrites to the as-is permitted value, works with a locally knowledgeable appraiser, and counsels the borrower on retroactive permitting pathways can serve this borrower and earn a meaningful yield premium in exchange for the added complexity.

Mixed-use and business-use properties require a blended underwriting approach that incorporates both the residential occupancy and the commercial income stream. NavPros helps institutions establish property-type-specific loan policies, appraisal protocols, and risk parameters so that lenders can say yes to these borrowers with confidence and documentation that satisfies regulatory scrutiny. Eligible property types within this niche include:

- Raw land and unimproved agricultural parcels, underwritten to a maximum LTV of 65 to 70 percent using comparable sales methodology.
- Farm, ranch, and improved agricultural properties, where income analysis must account for commodity cycles and seasonal revenue.
- Residential properties with non-permitted additions, underwritten to as-is permitted value with borrower guidance on retroactive permitting.
- Mixed-use and live-work properties requiring combined residential and commercial underwriting with income analysis on the commercial component.

2. Property Use: Investment, Vacation, and Non-Owner Occupied

Agency guidelines impose sharp restrictions on investment property lending: caps on the number of financed properties a single borrower may carry, significant pricing adjustments on non-owner-occupied transactions, and a near-total exclusion of short-term rental income from qualifying calculations.7 These restrictions reflect the standardization requirements of the secondary market, not credit risk. A community lender operating a held portfolio has no such constraint.

Short-term rental properties present additional opportunity. Third-party analytics platforms now provide detailed trailing income data at the property level, giving lenders a defensible, auditable basis for qualifying short-term rental income without relying on projections. Community lenders who build a program around verified trailing actuals, conservative haircuts, and adequate reserve requirements can serve this growing borrower segment while managing risk in a supervisory-defensible manner.

NavPros offers a full suite of investor-focused mortgage solutions through Land Home Financial Services' national platform, including:

- Debt Service Coverage Ratio (DSCR) loans, detailed in Section 3.
- Short-term rental income programs using verified trailing actuals, qualified at conservative haircuts with reserve requirements.
- Entity-borrower structures accepting LLC, LP, or corporate borrowers with personal guarantee.

Vacation and second-home loans for borrowers who exceed agency limits on financed properties.

3. Non-Traditional Qualifications: Bank Statement, Asset Depletion, and Debt Service Coverage Ratio (DSCR)

Self-employed owners, recent retirees, and high-net-worth individuals with limited reportable income share a common problem: the conventional mortgage market wasn't designed for them.9 W-2-based underwriting excludes borrowers whose financial lives don't fit the employee income model — not for lack of creditworthiness, but because the secondary market prefers standardized documentation. Portfolio lenders, however, are free to underwrite to a borrower's actual financial position.

Bank statement programs qualify self-employed borrowers using 12–24 months of deposits in lieu of tax returns. Asset depletion programs serve retirees who hold significant liquid wealth but draw limited income, converting eligible assets into imputed monthly income to extend credit to borrowers who can't satisfy a conventional income test.

The Debt Service Coverage Ratio (DSCR) loan qualifies investment property borrowers on the property's cash flow rather than personal income,8 ideal for investors whose tax returns, optimized for depreciation and deductions, understate their true cash position. It eliminates personal income documentation entirely, qualifying borrowers on the ratio of gross rental income to total housing expense. NavPros offers DSCR loans qualifying on property cash flow alone, with no personal income documentation required.

All non-traditional programs, including DSCR loans, must meet the CFPB's Ability-to-Repay standard under Regulation Z. Non-QM loans held in portfolio are exempt from the Qualified Mortgage safe harbor but still require documented, reasonable ATR analysis defensible to an examiner.10 NavPros provides turn-key non-QM guidelines, underwriting support, and compliance frameworks backed by three decades of mortgage banking expertise.

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Program Type	Underwriting Approach
Bank Statement (12 to 24 months)	50 percent expense factor on business deposits or CPA letter; personal deposits at 100 percent
Asset Depletion Income	Eligible liquid assets divided by remaining loan term in months to derive qualifying monthly income
DSCR / Investor Cash Flow	No personal income documentation required; qualify on property rental income relative to total debt service
1099 / Gig Economy	Two years of 1099 history accepted in lieu of W-2 with year-to-date profit and loss statement

4. Construction, Renovation, and ADU Lending

Housing supply constraints across the United States have elevated construction and renovation lending from a niche product to a strategic priority.11 In market after market, the shortage of move-in-ready inventory has pushed buyers toward building new or substantially renovating existing stock. Community lenders who can finance that process from the ground up capture a borrower relationship at its earliest and most loyal stage.

The construction-to-permanent loan, commonly called a single-close construction loan, eliminates the refinance that a two-close structure requires.12 The borrower locks their permanent rate and terms at closing, draws funds during the construction phase according to an inspection-verified draw schedule, and converts to full amortization upon issuance of the Certificate of Occupancy. The lender who funded the construction earns the permanent loan.

Renovation lending allows lenders to finance both the acquisition or existing balance and the improvement cost in a single structure, underwriting to the after-improved value and controlling draws through contractor milestone inspections. Accessory dwelling unit programs are among the most mission-aligned and CRA-favorable products in the community lender toolkit. By financing the addition of a detached unit, a garage conversion, or an in-law suite, community lenders directly address housing supply constraints while generating strong Community Reinvestment Act lending test credit. NavPros provides the templated documentation, draw management frameworks, and compliance infrastructure for all three program types:

Construction-to-permanent single-close: converts to permanent amortization at Certificate of Occupancy.

Portfolio renovation loans: underwritten to after-improved appraised value with milestone-tied disbursements.

ADU addition programs: ADU rental income qualifies toward the borrower's housing expense offset and generates CRA credit.

5. Multi-Collateral and Pledged Account Structures

Cross-collateralized loan structures and pledged investment accounts allow community lenders to

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approve creditworthy borrowers who fall short of conventional thresholds when evaluated against a single property or standard income test.13 By incorporating additional collateral, the lender improves the overall credit position of the transaction and earns a rate premium in exchange for the structural complexity.

Pledged investment account mortgages allow a borrower to assign a brokerage or investment account as additional collateral. The lender places a lien on the account through a control agreement with the custodian and applies a haircut to account for market volatility — typically 30 percent on equities and 10 percent on fixed income. If the account value drops below a defined trigger level, the borrower must post additional assets or reduce the outstanding loan balance.

Blanket lien and cross-collateralization structures are used most effectively across a real estate investor's multi-property portfolio. By tying multiple properties under a single lien, the lender gains a stronger overall collateral position than any individual property would support. These structures require well-defined partial release provisions that govern how individual properties can be removed as they are sold or refinanced. NavPros provides templated multi-collateral loan policy language, control agreement frameworks, and real-time portfolio monitoring through a B2B reporting portal.

AVOIDING INTEREST RATE RISK: BALLOON AND ARM STRATEGIES

A portfolio of yield is only as strong as its interest rate risk management.14 The five niche programs described above generate premium income, but that income is only durable if the institution structures its loans to avoid the duration mismatch that has historically threatened portfolio lenders. Funding long-term fixed-rate loans with short-duration deposits is the fundamental ALM risk that community institutions must address proactively. The tools are well established: balloon maturities and adjustable-rate structures. Used thoughtfully, they shift repricing risk without burdening borrowers unfairly and allow institutions to build a yield-generating portfolio that remains defensible through interest rate cycles.

Balloon Mortgages: Capping Duration Exposure

Balloon mortgage structures, most commonly offered as 5/25, 7/23, or 10/20 products, amortize on a standard 25 to 30 year schedule but require full repayment of the outstanding balance at the end of the balloon term. For the lender, this structure hard-caps interest rate exposure at five, seven, or ten years regardless of the loan's amortization period. The institution retains the right to reprice at maturity, either through a new loan at market rates or through a conditional extension feature that converts the balloon to an adjustable-rate mortgage.

Balloon loans carry higher current yields than comparable adjustable-rate mortgages because the borrower accepts a defined maturity risk. They are particularly well suited to investment property and commercial-residential hybrid transactions where the borrower's hold period aligns naturally with the balloon term. Lenders who include a well-documented conditional extension or convert-to-ARM clause protect both the borrower and the institution in the event that market conditions at maturity are unfavorable for a full payoff.

Adjustable-Rate Mortgages: Aligning Assets with Funding Costs

SOFR-indexed adjustable-rate mortgages have become the standard vehicle for non-agency portfolio lending and provide the most direct mechanism for aligning loan asset repricing with the institution's cost of funds.15 A properly structured ARM fixes the rate for an initial period that provides payment certainty for the borrower and yield certainty for the institution, then reprices periodically at a defined margin above

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the index. As market rates rise, the portfolio's yield rises with them, reducing the duration mismatch that plagues fixed-rate portfolios.

When structuring ARM programs for a niche portfolio, institutions should apply the following parameters consistently:

- Cap structure: 2/2/5 caps — 2 percent initial adjustment, 2 percent periodic, 5 percent lifetime above the initial note rate.
- Qualification: Qualify borrowers at the fully-indexed rate or the note rate plus 2 percent, whichever is higher.
- Index: 30-day average SOFR plus a defined margin. Avoid COFI or CMT indices for new originations.
- Floor: Set at the initial note rate to protect portfolio yield in a declining-rate environment.

MORTGAGE LENDING STRATEGY AND EXECUTION RESOURCES

NavPros conducts quarterly balance sheet, risk, and service level reviews that translate mortgage portfolio performance into plain-language ALCO reporting, bridging the gap that often exists between mortgage Banking operations and executive-level risk management. COO Brenda Usher brings more than 25 years of capital markets, hedging, and risk management experience to support each institution's rate risk strategy directly.

A blueprint without execution is simply theory. The institutions that successfully implement these strategies do so by aligning with partners who specialize in mortgage lending infrastructure and delivery. This is where NavPros becomes a critical component of success.

NavPros is a specialized division of Land Home Financial Services, a top 50 U.S. mortgage lender licensed in all 50 states and backed by more than three decades of mortgage Banking expertise. NavPros provides Community Banks and Credit Unions with the full infrastructure needed to launch or expand a niche portfolio lending program without building it alone. Rather than requiring institutions to manage every aspect of mortgage operations internally, NavPros enables:

White-label mortgage fulfillment services across the full loan lifecycle, from origination through investor delivery.

A broad product suite including conventional, FHA, VA, USDA, jumbo, reverse mortgages, manufactured home programs, HELOCs, DSCR, Bank statement, and non-QM programs.

- A web-based loan technology platform covering point-of-sale through e-closing, with automated workflow and real-time executive reporting.
- On-demand access to experienced mortgage professionals across origination, processing, underwriting, compliance, and secondary marketing.
- Integrated compliance and regulatory support through established frameworks, ongoing monitoring, and audit-ready processes.
- Private-label rate sheet generation, marketing collateral, and social media content deployed under your institution's brand.
- Quarterly executive reviews translating balance sheet risk, portfolio performance, and service levels into plain-language reporting for your C-suite and board.

The C-suite of Community Banks and Credit Unions are typically highly capable executives. However, they have competing priorities and obligations that often limit focus on home lending execution. Having access to mortgage lending strategists with proven track records and deep regulatory knowledge is difficult to find and expensive to retain internally. NavPros provides that expertise as a scalable, production-based service. A full partnership deployment — technology setup, product guidelines, compliance framework, staff training, and marketing collateral — can be completed in as little as 30 days.

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CLOSING THOUGHTS

Community Banks and Credit Unions hold a structural competitive advantage that national lenders can never replicate: deep local relationships, market knowledge, and the trust of their communities. What has historically been missing is the product depth, operational infrastructure, and execution framework to translate that advantage into home lending market share.

The portfolio of yield strategy outlined in this whitepaper is not theoretical. It is being executed today by community institutions across the country, building niche loan portfolios in agricultural lending, non-traditional qualification programs, investor and DSCR products, construction finance, and complex collateral structures, while managing interest rate risk through balloon and ARM disciplines.

NavPros exists to accelerate this execution, removing the barriers of staffing, technology, compliance, and expertise that have historically kept niche portfolio lending out of reach for community institutions. The blueprint is here. The partnership is available. The only question is when your institution will move.

SEIZE THE MORTGAGE OPPORTUNITY: BECOME YOUR MARKET'S PFI

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.

NAVPROS OFFERS:

- TPO Lending Solutions
- Staffing Augmentation
- Next Gen Technology
- Home Lending Marketing and Promotion
- Roadmap Planning
- Process Analysis and 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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