



Expert Takes: The Return of the Relationship Lender—Non-Interest Income, TPO Portfolios, and the Community Financial Institution Mortgage Opportunity

By Lionel Urban, Founder and Division President, NavPros

EXECUTIVE SUMMARY

For most of the twentieth century, the mortgage on the house down the street was, in a very literal sense, a community asset. It was underwritten by a local loan officer who knew the borrower's employer, funded by the institution's own capital, and paid down over decades as part of a relationship that extended to checking accounts, auto loans, and small-business lines of credit. That model shaped how financial institutions, Community Banks and Credit Unions alike, thought about profitability: net interest margin was the engine, and mortgage lending was one of its most dependable pistons.

That world has changed. It changed in the 1970s as the concepts of mortgage securities and national conforming guidelines were introduced. It changed after 2008, when new capital and compliance rules pushed a large share of mortgage origination and servicing out of the depository sector entirely. Over the last 40 years, the application has gone from two pages for a married couple to an average of 12 to 14 pages. Integration with third parties is considered common practice for credit, documents, flood services, appraisals, and pricing. It is changing again now as borrowers demand an automated experience combined with high-touch service.

Fast-forward to today, and a new strategy is emerging as a best practice for community financial institutions. 2026 earnings data, expanded TPO program offerings, and maturing technology platforms create a genuine opening for Community Banks and Credit

Unions alike to reclaim ground in home lending, this time without rebuilding the infrastructure that made the retreat so costly. This paper traces that history, examines what the numbers from 2025 actually show, and explains why non-interest income built through TPO portfolios is one of the more durable growth levers available to community financial institutions today.

A SHORT HISTORY OF WHO ORIGINATES THE AMERICAN MORTGAGE

The modern mortgage market was built to keep local lenders lending. During the Great Depression, when banks had all but stopped originating home loans, Congress chartered the Federal National Mortgage Association, known as Fannie Mae, in 1938 to buy insured loans from local lenders and free up their balance sheets to make new ones.¹

The arrangement introduced the long-term, fixed-rate mortgage as a mainstream product and gave community lenders a buyer of last resort for the loans they originated, allowing them to keep serving their communities without holding every loan to maturity.²

In 1970, Congress created a second buyer, the Federal Home Loan Mortgage Corporation, or Freddie Mac, specifically to give smaller depository institutions, savings and loans, Community Banks, and Credit Unions a competitive secondary-market outlet distinct from Fannie Mae's thrift-dominated customer base.³

The Return of the Relationship Lender (continued page 2)



The Return of the Relationship Lender (continued from page 1)

That same year, the Government National Mortgage Association, known as Ginnie Mae, issued the first mortgage-backed security guaranteeing timely payment on government-insured loans, completing the infrastructure that allowed a lender in a small town to fund a 30-year mortgage with money raised from investors on the other side of the country.⁴

For decades, this system worked as intended: community financial institutions originated, sold, or retained loans according to their own balance sheet strategies and used the secondary market as a tool rather than a threat. That balance broke down after the 2008 financial crisis. Community Banks and Credit Unions were not the primary cause of the mortgage meltdown, but they absorbed much of the resulting regulatory burden alongside every other lender.⁵

The Dodd-Frank Act's Ability-to-Repay and Qualified Mortgage rules, which took effect in 2014, raised the cost and legal exposure of originating a mortgage. A 2013 change to how regulators treated mortgage servicing rights on a bank's balance sheet made retaining servicing meaningfully more capital-intensive, particularly for smaller institutions that could not spread the fixed cost of a servicing operation across a large enough loan volume.⁶

The resulting shift in market share has been, in the words of Federal Reserve Vice Chair for Supervision Michelle Bowman, "extraordinary." In 2008, depository institutions, a group that in Federal Reserve data includes commercial banks, thrifts, and Credit Unions, originated roughly 60 percent of mortgages and held servicing rights on about 95 percent of outstanding mortgage balances. By 2023, that share had fallen to just 35 percent of originations and about 45 percent of serviced balances.⁷

Depository institutions' share of total originations fell from 81 percent to 39 percent over the following 15 years, with 2016 marking the first year that independent mortgage companies out-originated depositories nationally.⁸

A parallel Harvard Kennedy School study found that nonbank lenders' share of agency purchase originations jumped from 27 percent in mid-2012 to 48 percent by late 2014 alone, almost entirely because banks and Credit Unions retreated from a business

that had become disproportionately expensive to operate relative to its risk.⁹

Out of that retreat, brokers and correspondent lenders filled the resulting space and grew what the industry calls third-party origination, or TPO. A TPO transaction is any loan that is originated, processed, underwritten, or closed in whole or in part by an entity other than the institution that ultimately holds or sells it, most commonly through a wholesale broker relationship or a correspondent lending arrangement.¹⁰

What began as a workaround for institutions that had exited direct origination has since matured into a sophisticated, well-capitalized channel in its own right. To date, the broker market has flourished with nimble brokers operating under a different regulatory framework. This market has expanded to include hundreds of secondary-market options, while large national independent mortgage bankers and National Banks have seized the servicing opportunity.

PRESENT TRENDS: WHY 2026 IS SUPPORTING A NEW PARADIGM

Market trends can be segmented into three categories that benefit community-based financial institutions:

Portfolio Lending Updates

TPO Lending Activities

Technology Enhancements

Two portfolio lending developments in the past 18 months suggest the pendulum may be swinging back toward depository participation in mortgage lending on their balance sheets, and community financial institutions are positioned to benefit disproportionately if they act on it.

The first is regulatory. In February 2026, Vice Chair Bowman told the American Bankers Association's community bankers conference that the Federal Reserve is preparing proposals to remove the requirement to deduct mortgage servicing assets from regulatory capital and to make capital requirements for residential

The Return of the Relationship Lender (continued page 3)



The Return of the Relationship Lender (continued from page 2)

mortgages more sensitive to loan-to-value ratios, changes explicitly designed to “potentially reverse the trend of migration of mortgage activity to nonbanks over the past 15 years.”¹¹

Whatever the timeline for final rulemaking, the direction of travel matters: bank regulators are now on record saying the post-2013 capital treatment of mortgage assets overshot the actual risk and that mortgage lending should be a more viable business line for depository institutions of all sizes.

The second is financial performance. The FDIC’s fourth-quarter 2025 Quarterly Banking Profile, which tracks FDIC-insured Community Banks specifically, showed that Community Bank net income rose 22.5 percent for the full year, driven by broad-based loan growth across nearly every major portfolio and by net interest margin expansion of 33 basis points year over year to 3.77 percent.¹²

Loan and lease balances grew 5.4 percent from a year earlier, and total assets rose 5 percent, evidence that Community Banks are gaining, not losing, competitive footing in their markets.¹³

That growth came from diversified lending, not from a single product line, which is itself instructive: institutions that spread their balance sheets across multiple loan types weathered the fourth-quarter dip in net income, driven by rising noninterest expense, far better than those overexposed to any single category.¹⁴

Credit Unions, though tracked separately by their own regulator, compete for the same borrowers, the same deposits, and the same relationship-banking value proposition. They face the identical strategic question of how to diversify revenue without overextending the balance sheet.

Read together, these two trends point toward the same conclusion. Community financial institutions are earning more, holding more diversified portfolios, and doing so at a moment when the primary regulatory obstacle to mortgage participation is being reconsidered at the highest levels of bank supervision. The institutions, Community Banks and Credit Unions alike, that build home lending capacity now, before the broader industry catches up to what the data and regulators are signaling, stand to capture a disproportionate share of the opportunity.

BOOSTING NON-INTEREST INCOME AND SAVING CUSTOMER RELATIONSHIPS THROUGH TPO

Community Bank and Credit Union leadership teams alike have spent much of the past decade watching their home lending business lines erode as nimble mortgage brokers offered a more diverse range of products. The broker business model revolves around one-time fee income collected at loan closing. At the same time, Community Bank and Credit Union customers became targets for highly specialized cross-selling of other financial services by National Lenders that ultimately obtained the servicing rights for those loans.

Today, a specialized group of independent mortgage bankers has refined the securitization process and offers a partnership-like model for private-label support from origination through loan servicing. Community Bank and Credit Union customers who historically went elsewhere can now be served by home loan specialists in much the same way that specialized networks support the credit card industry. The Financial Institution sets the fees and rates and receives lender-paid compensation, or LPC, while the home lending specialist provides marketing support, origination services, and a technology stack branded in the Financial Institution’s name. The most current practice allows the white-label support team to fulfill both portfolio lending, using the Financial Institution’s guidelines, and TPO simultaneously. Customers receive a high level of service from home loan experts who are paid when a loan closes. This model provides scalability and helps ensure the Financial Institution is never overstaffed or understaffed.

Building an origination and servicing operation large enough to be cost-effective requires scale, and most Community Banks and Credit Unions, particularly those with fewer than 50,000 members or a few billion dollars in assets, simply do not have that scale on their own.¹⁷

A private-label partnership sidesteps that constraint. It lets an institution offer conventional, FHA, VA, USDA, jumbo, non-QM, reverse, and specialty products such as manufactured housing or down payment assistance loans, competing head-to-head



Please note that all information provided is for informational purposes only, for the exclusive use of licensed mortgage professionals, and not for the general public. Navigator Lending Solutions is a Division of Land Home Financial Services, Inc. NMLS #1796. www.nmlsconsumeraccess.org 1355 Willow Way, Suite 250, Concord, CA 94520. Licensed by the Department of Business sight under the California Residential Mortgage Lending Act. Equal Housing Opportunity.

with national mortgage bankers on product breadth while keeping more specialized portfolio loans on the balance sheet.

THE STRATEGIC PARTNERSHIP

The right strategic partnership can make a difference. Much like the specialized networks that support credit card payments behind the scenes, NavPros provides the mortgage infrastructure, technology, fulfillment expertise, compliance support, and operational capacity that allow a Community Bank or Credit Union to offer a competitive home lending program without building every component internally. The institution remains at the center of the borrower relationship, preserving its brand, local trust, and strategic lending objectives, while NavPros supplies the specialized mortgage capabilities needed to make home lending practical, scalable, and sustainable. Such specialized support includes portfolio policy, procedure, and guideline support, as well as daily operational support for rate sheet generation, pipeline reporting, and technology stack management.

Whether the goal is to grow fee income, retain select loans on the balance sheet, or both, NavPros' TPO lending solutions, staffing augmentation, and compliance support are built specifically for institutions that want the relationship and revenue benefits of mortgage lending without the operational burden that pushed so many depositories out of the business after 2008. As the regulatory environment shifts back in favor of depository participation and loan growth data confirms the value of a diversified portfolio, community financial institutions have a narrowing window to establish themselves as the preferred mortgage lender in their own markets before national and regional competitors move first.

As a division of Land Home Financial Services, a top-50 U.S. mortgage lender with more than three decades of mortgage banking experience, NavPros gives small to mid-sized Community Banks and Credit Unions a full-service, private-label path into home lending, from point-of-sale technology and marketing collateral through underwriting, closing, and investor delivery, without requiring the institution to build that infrastructure itself.

TAKE THE NEXT STEP

Every Financial Institution's lending footprint holds a different mix of purchase demand, refinance opportunity, and underserved borrower segments. The only way to know what that mix looks like in your market is to examine the data specific to your footprint. Want to know the facts in your lending footprint? Contact NavPros for a no-obligation Market Opportunity Report showing who your competitors are, who is winning the business, how they are doing it, how much home lending volume they are capturing, and where the untapped opportunities are. No cost. No commitment. Just a clear picture of the market you already serve. Contact NavPros at inquiries@navpros.com or 727.536.2000 to get started.

NAVPROS OFFERS:

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

NOTES

1. "A History of Fannie Mae and Freddie Mac," Mortgage Cadence, January 11, 2024, <https://www.mortgagecadence.com/blog/back-to-basics/a-history-of-fannie-mae-and-freddie-mac/>.
2. Congressional Budget Office, Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market (Washington, DC: Congressional Budget Office, December 2010), <https://www.cbo.gov/publication/21992>.



The Return of the Relationship Lender (continued from page 4)

NOTES (CONT.)

3. "1. The Rise and Fall of Fannie Mae and Freddie Mac," USC Lusk Center for Real Estate, working paper, 2009, https://lusk.usc.edu/sites/default/files/working_papers/wp_2009-1001.pdf.
4. USC Lusk Center for Real Estate, "Rise and Fall of Fannie Mae and Freddie Mac."
5. "Community Banks Struggle Against Regulatory Burdens," National Mortgage Professional, March 17, 2024, <https://nationalmortgageprofessional.com/news/42812/community-banks-struggle-against-regulatory-burdens>.
6. Michelle W. Bowman, "Revitalizing Bank Mortgage Lending, One Step with Basel" (speech, American Bankers Association Conference for Community Bankers, Orlando, FL, February 16, 2026), Board of Governors of the Federal Reserve System, <https://www.federalreserve.gov/newsevents/speech/bowman20260216a.htm>.
7. Bowman, "Revitalizing Bank Mortgage Lending."
8. Dan Brown, "More than Mortgages: Hidden Ways Banks Contribute to Housing Access," ABA Banking Journal, February 9, 2024, <https://bankingjournal.aba.com/2024/01/more-than-mortgages-hidden-ways-banks-contribute-to-housing-access/>.
9. "Is the Decline in Bank Mortgage Originations a Bad Thing?," National Mortgage Professional, March 17, 2024, <https://nationalmortgageprofessional.com/news/54581/decline-bank-mortgage-originations-bad-thing>.
10. STRATMOR Group, "Thinking About Wholesale? Considerations for Mortgage Originators and Lenders," April 5, 2024, <https://www.stratmorgroup.com/thinking-about-wholesale-considerations-for-mortgage-originators-and-lenders/>; see also Fannie Mae, "Third-Party Originations Seller/Servicer Risk Self-Assessment," <https://capitalmarkets.fanniemae.com/media/20851/display>.
11. Bowman, "Revitalizing Bank Mortgage Lending."
12. ICBA, "Community Bank Net Income Decreases in Q4 but Is Up in 2025," Independent Banker, February 25, 2026, <https://www.independentbanker.org/w/community-bank-net-income-decreases-in-q4-but-is-up-in-2025>.
13. ICBA, "Community Bank Net Income Decreases in Q4."
14. ICBA, "Community Bank Net Income Decreases in Q4."
15. Bowman, "Revitalizing Bank Mortgage Lending."
16. STRATMOR Group, "Thinking About Wholesale."
17. Bowman, "Revitalizing Bank Mortgage Lending."
18. ICBA, "Community Bank Net Income Decreases in Q4."



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.

Lionel Urban - Inquiries@NavPros.com, (808) 255-3663

President of Navigator Lending Solutions,
a Division of Land Home Financial Services, Inc.
Follow me on [LinkedIn](#)

