EXPERT TAKES: WHY HOME LOANS MATTER FOR COMMUNITY LENDERS

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EXECUTIVE SUMMARY

A strong home lending program isn't just another product line for a community bank or credit union—it's one of the most strategic growth engines available. When executed well, it strengthens relationships, drives revenue, and reinforces your institution's role in the community.

In today's competitive landscape, choosing not to prioritize mortgage lending is effectively conceding one of the most valuable customer relationships to outside competitors. A thoughtfully designed home lending strategy enables community institutions to remain relevant, profitable, and deeply connected to the people they serve.

The mortgage industry continues to be a significant consumer financial service.

MORTGAGE LENDING REMAINS A TRILLION-DOLLAR MARKET OPPORTUNITY

Even in a higher-rate environment, mortgage

lending remains massive and growing:

- U.S. mortgage originations are projected to reach ~$2.33 trillion in 2026
- The broader home loan market is expected to grow steadily through the decade

Sitting out mortgage lending means forfeiting participation
Home lending is the most significant lever on most community lenders balance sheet and financialse.

DEMOGRAPHIC TAILWINDS ARE EXPANDING THE BORROWER BASE

- Large cohorts are entering prime homeownership age, driving long-term demand
- Homeownership demand remains resilient despite rate pressures

Implication: Mortgage lending is not cyclical-only—it's structurally supported by demographics, making it a long-term strategic investment.

HOME EQUITY IS A $30+ TRILLION OPPORTUNITY

- U.S. homeowners collectively hold ~$35 trillion in home equity

Implication: Mortgage lending isn't just purchase—it's:
- HELOCs
- Cash-out refinances
- Retention strategies

This creates a lifecycle lending ecosystem, not a one-time transaction.

Why should community banks or credit unions be engaged in this market?

Why Home Loans Matter for Community Lenders (continued page 2)

(continued from page 1)

MARKET SHARE IS STILL BEING WON (AND LOST) TO NATIONAL BANKS, NON-BANKS & FINTECHS

- National Banks still lead the pack for traditional financial institutions competing for borrowers
- Fintech and non-bank lenders continue gaining traction due to speed and ease of access

Implication: Without a competitive mortgage platform, community institutions risk:
- Losing primary relationships
- Losing deposits
- Becoming secondary financial providers

MORTGAGE CUSTOMERS DELIVER THE HIGHEST LIFETIME VALUE

- The average mortgage loan size is ~$373,000, making it one of the largest consumer relationships

Implication: Winning the mortgage means:
- Owning the primary banking relationship
- Driving cross-sell (deposits, wealth, insurance)
- Increasing retention and lifetime profitability

WHY HAVING A SUCCESSFUL HOME LENDING PROGRAM MATTERS

The 2025–2026 mortgage market is not contracting—it's resetting:
- Rates are stabilizing, not collapsing
- Demand is shifting from refinance to purchase
- Affordability challenges are increasing the need for guidance
- Demographics and equity are sustaining long-term growth

For community banks and credit unions, this creates a clear strategic reality:

Mortgage lending is no longer optional—it is foundational to maintaining relevance, growing relationships, and defending market share in a changing financial landscape.

Without an effective home lending program, You Miss Out on a Trillion-Dollar Market
With ~$2+ trillion in annual mortgage originations projected in 2026, opting out means:
- Walking away from meaningful revenue
- Limiting growth to smaller, shorter-duration products

Meanwhile, competitors are scaling within that market.

Letting national banks and non-bank mortgage lenders take your customers' home loans may seem convenient in the short term—but strategically, it creates long-term erosion of relevance, revenue, and relationships.

Here are the six key reasons community banks and credit unions should not cede mortgage originations to outside lenders, especially in the current environment:

1. Deepens Primary Financial Relationships

Mortgage lending anchors the customer relationship. A home loan is often the largest financial transaction in a consumer's life, creating long-term engagement and significantly increasing retention.

Lose the mortgage, Lose the Primary Financial Relationship. The mortgage is typically the anchor product in a household's financial life.
When another lender originates the loan:
- They become the primary financial institution
- You become a secondary or transactional provider
- Future opportunities (refi, HELOC, wealth) shift away from you

Bottom line: Whoever holds the mortgage often "owns" the customer.

Large non-bank lenders and fintechs continue to take share. A strong mortgage program allows community institutions to compete effectively and retain local borrowers who prefer personalized service.

Why Home Loans Matter for Community Lenders (continued from page 2)

2. Mortgage Lending is a Significant Lever for Financials

Portfolio Lending for a healthy balance sheet. Community lenders rely heavily on core lending spread income (NIM) [stlouisfed.org]. Mortgage portfolios produce Predictable long-term cash flows, Stable asset yields and Lower charge-offs. The NIM can be significantly increased by focusing on programs that expand consumer options for non-conforming properties, non-traditional down payment sources (such as cross collateralization) and offering construction and remodeling programs.

Interest rate risk should be mitigated by focusing Portfolio lending programs on shorter terms and supporting adjustable rates for loans amortized five or more years. While this may seem limiting to borrowers, the fact is that while most mortgages are written as 30-year loans, government data shows that homeowners typically move or refinance well before maturity. Census data indicate average homeownership tenure of about 12 years, and FHFA prepayment analyses confirm significant early payoffs, resulting in an effective mortgage life commonly modeled at roughly 7–10 years. {US Census Bureau} To offset the loan origination costs, lenders now average over $6,000 in borrower paid lender fees per CFPB statistics. By leveraging vendor fulfillment loan delivery models for "On Demand" expertise and support, lenders get a predictable cost that is less than the fee income and get higher levels of service with improved levels of compliance.

The result is new balance sheet assets that are immediately profitable.

For riskier loans that support higher LTV's, higher debt ratios and lower credit scores, a Community Lender should leverage secondary market programs. These loans help meet the needs of more borrowers and yields one time fee income at closing. Since the inception of MBA's Annual Performance Report in 2008, net production income by year has averaged 47 basis points ($1,077 per loan). [Independent Mortgage Bankers]

3. Expands Cross-Sell Opportunities

Homeowners are far more likely to consolidate their financial lives with the institution that financed their home—leading to increased adoption several other financial services.

Improves Lifetime Customer Value (LCV). Mortgage customers tend to stay longer and generate more revenue across multiple product lines, dramatically increasing their overall lifetime value to the institution.

When you lose the mortgage business, You Forfeit Lifetime Customer Value. Mortgage customers generate the highest long-term value:

- Cross-sell into HELOCs, credit cards, wealth management
- Higher retention vs. non-mortgage households

When a non-bank captures the mortgage, they gain:

- Future refinance opportunity
- Home equity lending relationship
- Ongoing engagement

You're left competing for scraps of the relationship.

In today's liquidity-conscious environment, deposits follow the mortgage. This is critical:

- Homebuyers often move direct deposit, savings, and reserves
- Escrow accounts (taxes & insurance) sit with the mortgage servicer

Impact: You're not just losing a loan—you're losing low-cost, sticky deposits, which are increasingly valuable in a higher-rate environment.

4. Supports CRA and CDFI Mission Objectives

For many community banks and credit unions, mortgage lending aligns directly with Community Reinvestment Act (CRA) goals and the mission of serving underserved or local populations.

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 (continued from page 3)

At its core, the CRA requires financial institutions to meet the credit needs of their entire community, particularly low- and moderate-income (LMI) households. Mortgage lending is not just one component of that—it is a primary driver of CRA credit and impact. In fact, Single-family mortgage lending is one of the largest contributors to CRA credit, alongside community development lending. Loan programs such that support Down Payment Assistance, have higher debt ratio limits and or lower credit score guidelines are available on the secondary market. When funded in the community lenders name they assist with CRA lending initiatives.

For community banks and credit unions, a high-performing mortgage lending program is not only a revenue driver—it is one of the most effective ways to fulfill your institution's Community Reinvestment Act (CRA) and Community Development Financial Institution (CDFI) objectives.

In today's regulatory and competitive environment, leading institutions recognize that mortgage lending serves as the intersection of profitability, compliance, and community impact. When executed strategically, it transforms CRA and CDFI obligations into a measurable competitive advantage.

By knowing the target market you intend to serve, Secondary marketing relationships can identify those programs that will meet lending to low- and moderate-income (LMI) households. These mortgage programs move the risk of loan defaults to the end servicing owner and support:

- Low down payment options
- Affordable housing initiatives
- First-time homebuyer support

5. Positions the Institution for Scalable Growth

A well-structured mortgage platform—especially when supported by the right partners, technology, and processes—can scale efficiently without requiring a complete internal build-out. This allows institutions to grow without overextending operational resources.

As Non-Banks Aggressively expanding into your customer base they refine cross-selling opportunities. Independent mortgage bankers and fintech lenders dominate in key areas:

- Faster digital experiences
- Heavy marketing and lead generation
- Strong real estate agent relationships

They are not just filling a gap—they are systematically capturing your customers.

Risk: Over time, your institution becomes disintermediated from one of the largest financial decisions your customers make.

Having access to your customers data, and supporting a long term messaging platform enables you to cost effectively identity and promote other services from your institution.

6. Strengthens Community Presence and Brand Trust

A well-executed mortgage lending program does more than generate loan volume—it reinforces your institution's role as a community builder. By helping families establish roots locally, your bank or credit union builds goodwill, deepens relationships, and creates long-term brand equity that competitors cannot easily replicate.

For executive leadership, community presence and brand trust are not intangible concepts—they are measurable drivers of growth, retention, and profitability. Trust sits at the center of every banking relationship, particularly in high-stakes decisions such as homeownership and long-term financial planning. Industry research consistently shows that trust, service quality, and responsiveness are primary drivers of customer loyalty across banking markets. [mortgageresearch.com]

Why Home Loans Matter for Community Lenders (continued from page 4)

However, trust is increasingly fragile. According to J.D. Power's 2024 U.S. Retail Banking Satisfaction Study, 13% of customers say they are likely to switch institutions within the next 12 months, often due to poor service experiences or lack of transparency. For CEOs and COOs, this reinforces a critical reality: relationships must be actively managed, not assumed. Even small breakdowns in service or communication can erode years of goodwill. [bankrate.com]

The financial implications are significant. Experian reports that increasing customer retention by just 5% can improve profitability by 25% to 95%, while acquiring a new customer can cost up to five times more than retaining an existing one. In this context, trust is not simply a reputational asset—it is a direct lever for improving margins, reducing acquisition costs, and increasing customer lifetime value. [occ.gov]

Community banks and credit unions are uniquely positioned to capitalize on this dynamic. Unlike national lenders and fintech platforms, they operate with a structural advantage rooted in local presence, relationships, and a deep understanding of their markets. Historically, these institutions have served not only as financial intermediaries but as trusted advisors and active participants in the economic life of their communities. That positioning remains one of the most defensible differentiators available in today's market.

To fully realize this advantage, institutions must consistently reinforce trust through personalization and engagement. Borrowers increasingly expect tailored solutions and guidance, particularly in complex transactions such as mortgages. Institutions that demonstrate an understanding of individual financial goals strengthen customer confidence and create deeper, longer-lasting relationships. Evidence from community banking practices shows that personalized service models lead to higher retention and stronger relationship depth over time. [stratmorgroup.com]

The downstream impact is clear. Institutions that establish strong, trust-based relationships within their communities experience higher retention rates, increased referral activity, and greater share of wallet across products and services. These relationships create a foundation for cross-selling and long-term growth, as customers are more likely to consolidate their financial needs with institutions they trust. [fhfa.gov]

FROM "WHY IT MATTERS" TO "HOW TO IMPLEMENT"

In a marketplace where pricing, products, and technology can be quickly matched by competitors, trust remains one of the few sustainable competitive advantages. Institutions that invest in authentic community presence and consistently deliver on their brand promise position themselves not only to compete, but to lead.

For many community banks and credit unions, the strategic importance of mortgage lending is clear. The challenge is not ***whether*** to prioritize it—it's ***how*** to do so without adding cost structure, operational burden, or execution risk.

Traditionally, building or expanding a home lending program has required significant investment. Institutions have been forced to hire experienced loan officers, processors, and underwriters; implement complex loan origination systems; and manage evolving compliance requirements—all while navigating volume volatility. For many, especially those with moderate or inconsistent production levels, the economics simply haven't worked.

As a result, a common outcome emerges: mortgage lending is deprioritized, outsourced informally, or limited in scope. In the short term, this may appear to control costs. Over the long term, however, it leads to a gradual erosion of market share, customer relationships, and relevance.

A more effective model is now available—one that allows institutions to fully participate in the mortgage market without the traditional barriers to entry.

SHIFTING FROM FIXED COST TO SCALABLE CAPABILITY

The core issue facing most community lenders is the fixed-cost structure associated with mortgage operations. Salaries, benefits, system licensing, compliance infrastructure, and training costs must be supported regardless of loan volume. In cyclical markets, this creates margin pressure and operational inefficiency.

Forward-thinking institutions are addressing this by shifting from a fixed-cost operating model to a scalable, variable model—one that aligns cost with production rather than capacity.

By leveraging a specialized partner such as NavPros, community banks and credit unions can access a fully developed mortgage platform without building it internally. This includes experienced personnel, proven processes, integrated technology, and embedded compliance controls—all delivered in a way that scales with demand.

Instead of investing in infrastructure, institutions gain immediate access to private labeled onshore capability.

MAINTAINING OWNERSHIP OF THE CUSTOMER RELATIONSHIP

One of the most important considerations for executive leadership is maintaining control of the customer relationship. Any lending strategy that disintermediates the institution ultimately undermines long-term value.

A properly structured partnership model preserves that relationship. The institution remains the lender of record, the brand visible to the borrower, and the trusted advisor throughout the origination process and through loan servicing. The customer experience is delivered in your name, aligned with your standards, and integrated with your broader relationship strategy.

Behind the scenes, operational complexity is managed efficiently and consistently. In front of the customer, the experience remains local, personalized, and relationship-driven.

This distinction is critical. It allows the institution to retain the long-term value of the relationship while benefiting from a more efficient execution model.

ACCELERATING TIME TO MARKET WITHOUT OPERATIONAL STRAIN

Building a mortgage platform internally can take years to fully develop—and even longer to optimize. Recruiting talent, implementing systems, and refining processes introduces both cost and execution risk.

By contrast, a partnership model enables institutions to launch or expand a mortgage program in a fraction of the time. Proven workflows, experienced teams, and established compliance frameworks are already in place.

This allows leadership to focus on strategic priorities such as:

- Expanding market presence with a focus on home loan promotion
- Strengthening referral relationships
- Targeting underserved borrower segments
- Aligning mortgage lending with CRA and community objectives

Why Home Loans Matter for Community Lenders (continued from page 6)

Rather than building infrastructure, institutions can immediately begin producing results without large up front capital expenses or long term monthly obligations.

STRENGTHENING STRATEGIC FLEXIBILITY

Perhaps the most overlooked benefit of a partnership-driven approach is the flexibility it provides to executive leadership.

Mortgage lending volumes will fluctuate with interest rates, housing supply, and economic conditions. Institutions that rely solely on fixed internal resources often struggle to adjust quickly or lack the expertise to pivot to market and compliance changes.

A scalable model allows institutions to respond dynamically:

- Expanding capacity during periods of increased demand
- Controlling costs during slower cycles

Aligning Mortgage Lending with Broader Institutional Goals

A modern home lending program should do more than produce loans. It should support broader institutional objectives, including:

- Strengthening primary banking relationships
- Increasing deposit growth
- Expanding cross-sell opportunities
- Supporting CRA and community development initiatives

THE STRATEGIC TAKEAWAY

The question for today's community bank or credit union is no longer whether mortgage lending should be part of the portfolio. That answer is clear.

The more important question is how to participate in that market effectively, efficiently, and sustainably.

A partner-enabled approach offers a compelling answer. It allows institutions to:

- Enter or expand within the mortgage market without significant capital investment
- Eliminate the burden of fixed operational costs
- Deliver a competitive borrower experience
- Maintain ownership of customer relationships

CONCLUSION: ENABLING GROWTH WITHOUT ADDING BURDEN

For presidents, CEOs, and executive teams, the strategic objective is straightforward: grow relationships, improve profitability, and strengthen relevance within your market.

Mortgage lending is one of the most effective ways to achieve all three—but only if it can be executed without introducing unnecessary complexity or cost.

By leveraging a partner such as NavPros, community lenders can establish and implement a comprehensive home lending strategy that aligns with these objectives. It transforms mortgage lending from a resource-intensive challenge into a scalable, relationship-driven growth engine.
In doing so, institutions are not simply adding a product—they are positioning themselves to lead in the markets they serve, without compromising efficiency, profitability, or focus.

For bank presidents and executive teams, the strategic implication is clear: prioritizing community presence and trust is not a branding initiative—it is a core business strategy. It enables your institution to become the preferred financial partner in your market, particularly in relationship-driven services such as mortgage lending, where trust is the primary driver of borrower choice.

Why Home Loans Matter for Community Lenders (continued from page 7)

SEIZE THE MORTGAGE OPPORTUNITY: BECOME YOUR MARKET'S PFI

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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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