FINASTRA

Market Commentary – Mortgage Lending

Lending restrictions create mortgage opportunity for community financial institutions

As Covid-19 reached pandemic proportions in early 2020, the United States Fed took quick and decisive action to shore up the economy, buying hundreds of billions of dollars of mortgage-backed securities. The move was meant to provide banks with extra liquidity to help struggling borrowers as the pandemic forced business closures and jobless rates soared.

> *"As lenders began processing CARES Act stimulus financing, we saw a sharp 852 percent increase in the number of electronic signatures for the 9-day period beginning April 6."*

Several large banks, however, took a different approach to shoring up capital and liquidity, by raising borrowing standards and suspending home equity lines of credit. At some of the biggest financial institutions, baseline credit scores and employment standards have risen, and at least one bank has reduced lending maximums as well as the ratio between property value and loan amount, according to American Banker.[1]

As the bigger banks close many customers out of borrowing and refinancing, they are tying a loophole just wide enough for community banks and credit unions to slip through, seizing market share as they go, while assisting community members most impacted by the Covid-19 crisis.

About the author

Dan Putney,
Managing Director, Mortgage Solutions

Dan Putney is the Managing Director of Mortgage Solutions within Finastra's North American Community Markets division. With more than two decades of knowledge and expertise in the mortgage and mortgage technology industries, he serves as the firm's Center of Excellence for the Mortgage business.

Regional differences make community lenders strong

Existing home sales fell almost 18 percent in April,[2] but the housing market is showing signs of rebounding in many regions, as buyers try to cash in on record low interest rates.

As of May 7, mortgage application volume was on the rise for the third straight week, climbing 7 percent on a week-over-week basis.[3] As is common in the housing market, some areas are showing more decided signs of a rebound than others.

In Colorado Springs, where the median home price is an astounding 48 percent higher than the rest of the nation, homes are selling in 32 days, twice the rate of homes in the rest of the nation.[4]

Likewise, a portion of Connecticut saw a 22 percent month-over-month increase in home sales in April, as New York City residents sought suburbia during the Covid-19 recovery period.[5]

In general, homes in smaller cities, or those just outside of larger metropolitan areas, are selling 13 to 31 days faster.[6] However, it is not all good news. Most markets are still paused, as buyers await an improving financial outlook, and a new outbreak of the unpredictable coronavirus could easily put a damper on any current market optimism in the future.

> ***"By early May, refinancing volume was up 210 percent over the previous year."***

These regional differences, however, point to one of the main advantages that community banks and credit unions have when seizing the opportunity created by big banks. As members of the community, these institutions are more in touch with regional market differences and can act according to local market indicators. It is a leeway that larger banks do not always have.

The flexibility to act at a regional level is also important for refinancing. By early May, refinancing volume was up 210 percent over the previous year.[7] As homeowners rush to take advantage of the current low rate environment, it is an attempt to free up cash from overtaxed family budgets, providing credit unions and community banks with an opportunity to support members and customers during the crisis.

Preparing for the opportunity

As housing markets rebound, home buyers are already facing a changed landscape. Many experts predict that Covid-19 will be hard to eradicate and could impact society for months to come. For home buyers, that means fewer houses on the market, virtual showings, and remote meetings—all situations that make the process of buying a house more challenging. In this landscape, finding access to financing should not be something that qualified buyers have to worry about.

As big banks step back from mortgage lending, home buyers are looking for substitutes to fill the vacancies. Non-lenders are not likely to step up at scale without the backing of federal reserve funds, particularly as the Covid-19 environment increases portfolio risk.

This is where community banks and credit unions can assist potential home buyers as well as households seeking refinancing.

While community banks and credit unions have the advantage when it comes to acting on regional housing conditions, smaller is also better when it comes to agility. Community banks and credit unions have more options at their disposal, to quickly implement the virtual lending tools needed in a social distancing society, such as online applications, e-signatures and remote notarizations. These capabilities will have a decided impact on community banks and credit unions regardless of the path that the Covid-19 virus takes.

60%

of customers feel comfortable with online mortgage applications

30%

feel confident using a hybrid model, online applications with in-person or phone support

For more information visit finastra.com

Learn more in this e-book Moving forward with mortgage or contact us to speak to an expert about digitalizing your mortgage lending.

Last updated: June 2020

By the end of last year, McKinsey was reporting a marked increase in the call for digitization in mortgage. A survey conducted by the company concluded that 24 hour access to updates and instant pre-approvals were top customer priorities.[8] Sixty percent of customers reported feeling comfortable with online mortgage applications, and an additional 30 percent felt confident using a hybrid model, incorporating online applications with in-person or phone support.[9]

Since we don't know how long Covid-19 will be with us or how many cycles and degrees of social distancing we will have to endure, consumer preferences for digital services could easily become a future need as mandates make it difficult or impossible for in-person contact.

In the middle of March when states began to issue stay-at-home orders, transaction volume through Finastra's ProSign Online electronic signature platform increased 335 percent over a 3-week period.

As lenders began processing CARES Act stimulus financing, we saw a sharp 852 percent increase in the number of electronic signatures for the 9-day period beginning April 6. These numbers underscore the necessity of e-signatures in lending and how critical the capability is to a social distancing economy.

When it comes to mortgage in the uncertain era of Covid-19, digital services such as online applications, e-signatures, and remote notarizations, will be critical for homebuyers and homeowners needing to access financing.

Fortunately, for community banks and credit unions, the accessibility of third-party solutions, combined with fast implementation, can help these local financial institutions to seize the current mortgage opportunities opened by big banks. More importantly, community financial institutions will have the means to support customers and members throughout the lingering crisis.

References

1. "Banks Tighten Lending to Nervous Homeowners hoping to Tap Equity." American Banker, Apr. 02, 2020. Web.
2. Jeff Andrews. "The Economy Is Tanking. So Why Aren't Home Prices Dropping?" Curbed, May 21, 2020. Web.
3. Diana Olick. "Weekly Mortgage Applications Show Real Recover in Homebuying, as Interest Rates Set Another Record Low." CNBC, May 6, 2020. Web.
4. Clare Trapasso. "April's Hottest Markets: Even Coronavirus Can't Keep These Real Estate Hot Spots Down." Realtor.com, May 14, 2020. Web.
5. Julia Werth. "Real Estate Market Rebounds Sharply in Lower Connecticut River Valley." CT Examiner, May 7, 2020. Web.
6. Clare Trapasso. "April's Hottest Markets: Even Coronavirus Can't Keep These Real Estate Hot Spots Down." Realtor.com, May 14, 2020. Web.
7. Diana Olick. "Weekly Mortgage Applications Show Real Recover in Homebuying, as Interest Rates Set Another Record Low." CNBC, May 6, 2020. Web.
8. "Competing on Customer Experience in US Mortgage." McKinsey & Company, Dec. 2019. Web.
9. Ibid.

About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**

North American Headquarters

744 Primera Boulevard
Suite 2000
Lake Mary, FL 32746
United States
T: +1 800 989 9009

FINASTRA