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Innovation and Adaptation as Keys to Success in a Dynamic Market

By Brian Simon

The past decade has been one of near constant change for the mortgage industry. Following the real estate boom of the early 2000s—and the subsequent bust—buyers, lenders, and institutional investors are all slowly but steadily finding their way back to the residential housing market. As lenders continue to adjust to the Qualified Mortgage (QM) rules that took effect in January 2014, many are still wondering what the future of mortgage banking will bring. While the return to more careful lending practices comes as a relief to responsible lenders, we also recognize the challenge of finding new ways to grow and develop our business in today's tough regulatory environment.

The good news is that the demand for purchase money remains strong. Mortgage rates, although up slightly from the historic lows of 2012, still remain extremely low, making home ownership an attractive and attainable option for many buyers. In September of this year, builder confidence for new single family homes reached its highest level since 2005.

How can mortgage lenders capitalize on this renewed sense of optimism and build a profitable and sustainable model for the years ahead? Below, I'll outline five strategies that have helped us not only survive but thrive throughout these challenging and exciting times.

1. Be an innovator

While new, more stringent lending requirements have made it difficult for even credit-worthy buyers to meet the criteria for government and agency loans, they have also created a welcome opportunity for lenders who are able to anticipate the needs of non-traditional buyers and deliver loan products that serve a diverse and growing customer base.

As private capital makes its way slowly back into the market, we expect to see an increase in the availability of non-agency products, which gives us the flexibility to serve a wider spectrum of creditworthy customers. We continually look for responsible ways to provide loans where others cannot and help buyers with unconventional needs, such as self-employed borrowers or those with both high incomes and higher than average debt obligations.

Of course, it's important to note, that even while the lending options themselves are more creative, our internal criteria remain conservative: Buyers always need to provide full income documentation, demonstrate strong credit scores, and meet additional guidelines that indicate their ability to repay. Innovation is all about developing loan products that meet the specific and individual needs of solid buyers, not finding ways to deliver loans that exceed a buyer's means.

2. Seize opportunities

My company, New Penn Financial, launched in 2008 in the thick of the financial crisis. For us, the shakeup in the industry represented just the first of many opportunities, as it allowed us to rapidly assemble a strong management team with decades of collective experience and a shared perspective on how to change and revitalize mortgage lending.

Even as the company has grown over the past six years, we've maintained that start-up mentality, and it gives us both the mindset to recognize potential opportunities and the ability to move quickly and seize them as they arise. In some cases that has meant being aware of the opportunity for an acquisition as it presents itself, or being prepared to move into different external products or markets, but it can also mean looking for internal opportunities to improve processes or focus on organic growth. As clichéd as it may sound, we have found that when one window closes, another one generally opens.

3. Adapt to change

The days of a single, static mortgage lending model are behind us, and while that continues to be a huge adjustment for some traditional lenders, successful organizations will view it as a positive development. For example, New Penn at first focused only on consumer direct lending, but as the market continued to change, we launched additional distribution channels that allow us to better adapt to fluctuating conditions, including our third-party originator (TPO) channel for brokered and closed loans, and our distributed retail channel, which continues to grow.

Operating in multiple channels translates into an opportunity to drive revenue and derive profit from multiple markets. All are equally important, but we recognize that some work better than others in certain market conditions.

4. Embrace technology

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The new Know Before You Owe (KBYO) disclosure forms, coming to a closing table near you in August 2015, seek to both help borrowers understand their options and make it easier for them to comparison shop. An informed buyer is a good thing, and lenders who can provide clear, timely information throughout the buying process via compelling Web content or a useful smartphone app will have a leg up on the competition.

5. Develop relationships

It may seem like old-school advice, but all the technology in the world won't take the place of good old-fashioned relationships and customer service. For my firm, that has meant not only continuing our focus on customer service, but also responding specifically to the needs of our brokers and working closely with real estate agents through our retail channel. For our TPO channel, technology and relationship building have gone hand-in-hand as we continue to find ways to deliver more training, education, and open communication with our brokers, as well as finalizing the next iteration of our broker portal, which gives them instant access to information and allows them to make faster decisions.

A big part of growing relationships has been simply listening to brokers and real estate professionals. The better we understand their needs, the better able we are to provide flexible options that allow them to serve a broader customer base.

These strategies have helped my own company grow very quickly, but just as important to success is being a responsible lender; proactively anticipating the evolving regulatory climate; and doing the best job possible to take care of customers. All combined, the formula equates to a bright future, even in an uncertain market.

Brian Simon is chief operating officer for New Penn Financial and is responsible for the third-party originations (TPO) channel. Brian brings 18-plus years of experience in mortgage banking and capital markets to New Penn. He plays an instrumental role in the development of innovative products as well as the strategic direction and exponential growth of the company. Brian is an active member of both the Fannie Mae and Freddie Mac advisory boards. He may be reached by phone at (888) 988-1695 or e-mail tposales@newpenn-financial.com.