FINASTRA

Market Commentary

Five tips to help mortgage lenders succeed in an uncertain interest rate environment

How community banks and credit unions can optimize their operations and be ready to grow when interest rates move lower

"Our view is that on a national level the 2025 housing market is shaping up to feel like 2024. A silver lining for affordability is that we also anticipate income growth will outpace home price growth."

Fannie Mae
January 22, 2025

Mortgage application volume in 2024 continued to be constrained by tight housing supply, rapid home price appreciation, and persistent high interest rates, putting pressure on financial institutions, like community banks and credit unions, to streamline their operations.

And while the Mortgage Bankers Association (MBA) forecasts purchase originations to increase a robust 13% in 2025, to a total $1.46 trillion, uncertainty about unemployment and "the risk of budget deficits will keep longer term rates (including mortgages) from falling further even as the Fed cuts short-term rates."

Adding fuel to this uncertainty, the Federal Reserve is undecided how much stimulus to apply to the economy in 2025. Inflation measures stalled in late 2024 at a level that may preclude the Fed from reducing rates as frequently as it had been forecasting in late 2024.

But while lower interest rates may take longer to arrive than previously thought, there is growing momentum in the housing market and now is the time for financial institutions to boost their readiness by planning ahead and enhancing their back-office operations.

About the author

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Mary Kay has more than 25 years of experience in the financial services mortgage industry. At Finastra, she creates the product strategy and leads a team of designers and developers to align solutions with customer needs for the Originate Mortgagebot and MortgagebotLOS product suites.

Five strategies community banks and credit unions can employ in 2025 to optimize their mortgage business

1. Refocus on speedy service

Across all industries, 78% of borrowers ultimately select the first business to respond to their inquiry, highlighting the need for speedy service. It is key that financial institutions meet customers where they are – whether that's online, on the phone, or in a traditional branch environment.

In an increasingly digital world, lenders can provide borrowers easy access to loan originators through individually-branded websites, which enhance referral opportunities, speed up response times, and improve communication between the lender and the borrower. Through these branded sites, and to enhance the application process even further, solutions like self-service document upload make the process even easier and more efficient, giving the applicant the ability to upload requested documents without delay.

Establishing parameters for seamless loan prequalification also improves service for borrowers. This can be done through point-of-sale (POS) approvals, a hot topic in the mortgage applications space. Conditional underwriting guidelines can simply be integrated into the system to allow for faster prequalification based on consumer data.

> *"Mortgage applications for new home purchases increased 8.9% year-over-year in December 2024."*
>
> Mortgage Bankers Association

Finally, making the application process simple and easy-to-complete is critical. Lenders must set up their application process to be as short as possible, without unnecessary questions and steps. Mortgage teams can work with their compliance teams and a tech partner to ensure the application portal runs efficiently and without errors.

2. Streamline the back office

While preparing for an increase in mortgage application volumes, lenders must focus on integrated services and paperless processing. According to research from Finastra and East & Partners, a key pain point for many lenders is the automation of digital workflows, with respondents saying only 29% of their commercial and consumer lending workflows are automated, indicating that more than 71% of processes remain manual.

This presents a clear opportunity for areas where the back office can be streamlined. To process and underwrite applications more quickly, community banks and credit unions should leverage integrated services, workflow automation, and document management for a paperless loan file.

Lending solutions that seamlessly migrate borrower information from the financial institution's POS to the Loan Origination System (LOS) solve this challenge, providing back-office teams with an automated system that reduces costs, risk, and time to close.

> *"As long as the data comes in good on inflation or continues on that path, then I can certainly see rate cuts happening sooner than the markets expect. If the data doesn't cooperate, then you're going to be back to two and maybe even one reduction if we just get a lot of sticky inflation."*
>
> **Christopher Waller**
> Federal Reserve Governor,
> CNBC,, January 16, 2025

3. Invest in the tech stack

When leads and applications increase, easily managing and nurturing them is important to prevent losing potential borrowers to the competition. With the need for speedy service, any obstacles that slow a lender down will certainly cost them down the road, especially in a competitive market, emphasizing the need for a modern tech stack.

Finastra's Financial Services: State of the Nation Survey 2023 notes that US financial institutions are among the most likely globally to have resumed their technology investments in full, with almost a quarter of financial decision makers reporting that normal investment levels in technology and digital banking have returned after previous budget cuts enacted in the wake of global economic uncertainty.

US financial institutions possess increased optimism about economic growth in 2025 and beyond, highlighting why they must pay attention to needed improvements in their tech stacks, as competitors may already be one step ahead.

4. Promote different types of loans

With the right technology supporting a financial institution's lending operations, teams can quickly react to market conditions and offer products that borrowers need, which can be useful in any rate environment. With the Fed's plan for rate decreases remaining somewhat unclear, finding revenue opportunities outside of traditional mortgages remains a strong stopgap.

Home equity lines of credit (HELOC) and construction loans are two types of loans that may be of interest to both lenders and borrowers. HELOC volumes are expected to continue growing in 2025 because homeowners are increasingly opting to stay put and remodel their existing homes rather than move. HELOC rates are attractive to consumers, expected to sink to around 7.25%, the lowest in three years.

The persistent low inventory of existing homes for sale presents an opportunity for lenders to promote construction loans, as some borrowers may be interested in building rather than buying while inventory remains low throughout the country.

If alternative loan types are not already programmed into a financial institution's POS, revenue opportunities may be lost, highlighting the need to plan ahead and build these options into the overall user experience.

5. Analyze insights for enduring success

Financial institutions of all sizes possess valuable customer data that can be leveraged to best position their brands for enduring success. Many financial software providers offer analytics tools that provide insights and highlight opportunities for growth.

By leveraging the right data, lenders can improve loan cycle times and profitability, and make any needed changes quickly and efficiently. For example, analytics tools can demonstrate where in the application they are most likely to lose an applicant, highlighting the need for a fix to the process.

These tools likewise allow community banks and credit unions to target new borrowers more efficiently. With heat maps powered by the institution's data, Community Reinvestment Act (CRA) challenges can be identified and solved. They can also help find areas of opportunity – for example, areas within the market where few mortgages are held. With heat maps available at the click of a button, mortgage leaders can identify areas of revenue opportunity and develop strategies to prevent regulatory challenges.

With these five strategies in mind, smaller financial institutions will be well-positioned when mortgage volumes inevitably increase to more consistent levels. Planning now is key.

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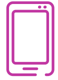

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About Finastra

Finastra is a global provider of financial services software applications across Lending, Payments, Treasury and Capital Markets, and Universal (retail and digital) Banking. Committed to unlocking the potential of people, businesses and communities everywhere, its vision is to accelerate the future of Open Finance through technology and collaboration, and its pioneering approach is why it is trusted by ~8,100 financial institutions, including 45 of the world's top 50 banks. For more information visit **finastra.com**

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