



Scoring With Mortgage Loans

by [Steve Brown](#)

Hockey great Wayne Gretzky had an interesting take on how to master his particular craft - don't go where the puck is on the ice, but instead to where the puck is going to be. Gretzky, a first ballot Hall-of-Famer, saw the game unfold before him seconds before his opponents did and that vision helped catapult him to the short list of not only greatest hockey players ever, but greatest athletes regardless of the sport. "A good hockey player plays where the puck is, but a great hockey player plays where the puck is going to be." said Gretzky.

This is a great lesson for community banks too, who really need to go where the profit potential is going to be in the future, even more than going where it is now.

Let's look at mortgage loans. Recent data shows that 87% of US households qualify for mortgage down payment assistance. At first blush, most consumers assume this means going through an HFA or a non-profit organization. In actuality, the first stop a consumer should make is at his or her local bank and local bank leaders should be ready for that request. After all, 87% of households translate into 68mm Americans eligible for mortgage down payment programs. Yet, only 25% of all mortgage originations come from smaller banks, according to the Fed (the figure includes credit unions and community banks). There are lots of reasons for this, but perhaps there is more opportunity for your bank as well. The Fed has some ideas to help, based on a 2012 study of small banks and mortgage originations.

Here are some tips to crack the market: Look to home refinancing and home improvement loans. The Fed reports that US mortgage consumers prefer community and independent banks for "one-off" home loans, like refinancing and home equity loans. This doesn't mean you should ignore direct mortgage loans, but knowing you may have the inside track to a customer base that wants to work with your bank is important.

Next, aim some of your marketing efforts toward those who qualify for loan mortgage assistance. The Fed reports smaller banks already offer a larger share of their total home-purchase loan portfolio to low or moderate-income individuals or to borrowers in low or moderate-income neighborhoods. This lending is the focus of CRA requirements after all. Local banks shouldn't stop with just meeting CRA requirements, but might also consider making an effort to let customers know your bank is the logical first and last stop for mortgage loan help.

Another valid marketing target is the younger homeowner. A good chunk of government assistance cash for home mortgage loans is being steered toward younger, first-time buyers. Money and programs abound for this group to help with down payments and other subsidies.

Even if mortgage lending isn't your cup of tea, it makes sense to think about the future of your business. Bankers usually do that in annual strategic meetings, but things are changing so fast we would say management should focus more on semiannual activity to refresh ideas.

Who knows, like the Great Gretzky, you could be the next banker to anticipate where the opportunity lies. Then meeting your bank's goals for profitability and portfolio growth should be far easier to attain.

BANK NEWS

M&A Activity

1) McKenzie Banking Co (\$123mm, TN) will acquire The Farmers Bank (\$12mm, TN) for an undisclosed sum. 2) Glen Rock Savings Bank (\$136mm, NJ) will acquire Llewellyn-Edison Savings Bank (\$122mm, NJ) for an undisclosed sum.

Major Competition

Computer Weekly cites a Reuters report that indicates IBM has reportedly had informal talks with some central banks related to providing digital cash and payments systems using the same underlying technology as bitcoin. As envisioned, it would reportedly allow people to make payments and transfer money in real time without banks.

Exit Time

The typical private equity firm that jumped into the banking sector and provided capital during the depths of the credit crisis, is now nearing the end of its investment timeline. Most PE firms will stay in their investments for 5Ys to 7Ys, at which time they will seek to exit through the sale of the company or other M&A event. Look for more banks with PE investor backing to go on the blocks this year and next as a result.

Customers & Employees

Research by the Founder Institute finds the three most common traits of company founders (and probably employees as well) that will lead to disaster are: deceit (does not tell the truth), predatory aggression (not enough to win, but have to put your competitor out of business and embarrass them) and instability (throw things or yell at people when stress is high). Now that you know, you can add a series of psychological tests to your lending package before you extend credit perhaps.

Small Biz Employees

A survey by insurance specialist Employers finds when it comes to wellness care of employees, small businesses with less than 100 employees: 77% do not provide non-traditional seating options such as stand up desks or balance balls; 65% of small business owners work during their planned vacation time; 55% of employees who primarily work on computers are encouraged to take routine breaks to rest their eyes; 42% do not provide monitor stands for posture and 29% say their employees are seated for more than an hour at a time.

Number Change

FDIC data finds that from 2013 to 2014 the number of institutions overall declined by 4.4%. By asset size the changes were quite different as institutions under \$100mm in assets slipped 8.9%; those \$100mm to \$1B fell 3.3% and those \$1B to \$10B increased 2.7%. There was no change above \$10B.

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