FinTech Lenders Driving Innovation and Carving Out Market Share

By Matthew Mitchell

Mortgage origination has not been immune to the impact of technology. A recent study by the National Bureau of Economic Research ("NBER") estimated that, between 2010 and 2016, the market share of "FinTech lenders", or lenders that offer an entirely online application process, grew from 2% to 8% and originations grew from $34 billion to $161 billion. This represents an annual growth rate of 30%.

While traditional brick-and-mortar lenders certainly are not obsolete, the NBER study suggests that online lenders are using technology and convenience to gain market share. The NBER highlighted the speed with which FinTech lenders are able to process loan applications, estimating that online lenders process loans 20% faster than brick-and-mortar institutions. In addition, this faster processing time does not necessarily correlate to less due diligence or higher default rates. Rather, the study found that loans originated by FinTech lenders actually defaulted 25% less as compared to loans originated by brick-and-mortar lenders. The NBER ultimately concluded that "technological innovation has improved the efficiency of financial intermediation in the U.S. mortgage market."

The increasing success of FinTech lenders certainly should come as no surprise. In an age where businesses need to be hyper-focused on their customers, FinTech lenders offer borrowers speed, efficiency, and convenience from the comfort of home. This type of innovation will necessarily force traditional brick-and-mortar lenders to find ways to compete with the convenience afforded by online lending.

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