

DATA DISPATCH

US banks fear slowdown in mortgage activity as rates skyrocket

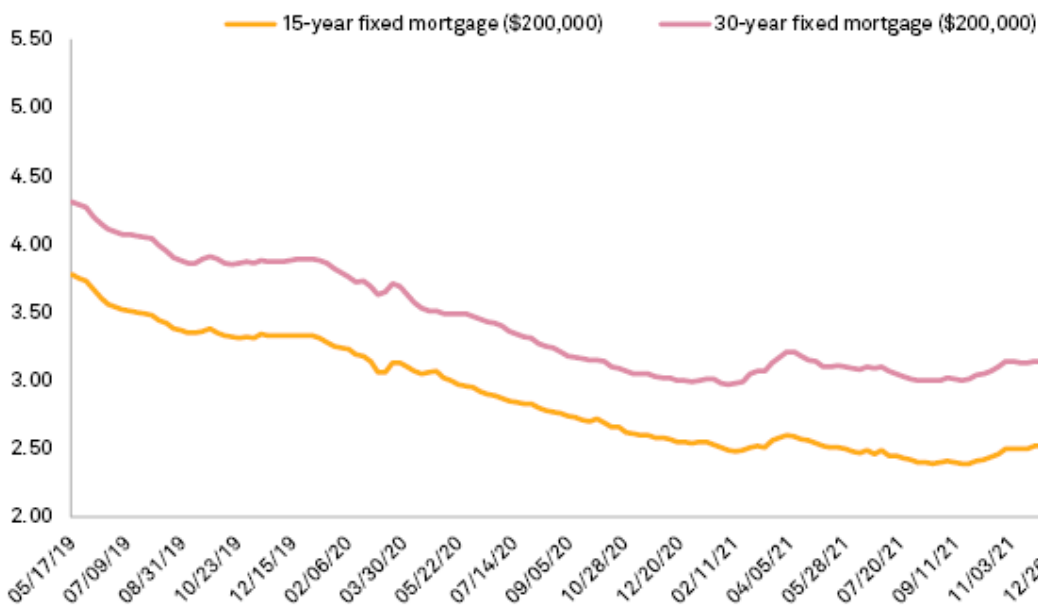
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By Lauren Seay and Ronamil Portes
Market Intelligence

Fixed mortgage rates have surged over the past few months, creeping closer to levels that U.S. banks dread.

As of May 27, the average rate for a 30-year fixed mortgage stood at 5.12% while a 15-year fixed rate was at 4.41%, up from between 2% and 3.5% for both throughout much of 2020 and all of 2021. Bankers are fearful of how rising rates will impact mortgage banking activity.

15- and 30-year mortgage rates (%)



Data compiled May 30, 2022.

Loan and mortgage rates represent the average U.S. rate for all S&P Global Market Intelligence-covered banks, thrifts and credit unions for the period between May 17, 2019, and May 27, 2022.

Interest rate data may not reflect all pricing regions for each company and is based on current S&P Global Market Intelligence coverage. When unavailable, the average rate for the previous week is shown.

Source: S&P Global Market Intelligence

Origination worries

If 30-year mortgage rates reach 6%, "the mortgage market is going to dry up very, very, very quickly," First Internet Bancorp Chairman and CEO David Becker said on the company's first-quarter earnings call.

Executives at BankUnited Inc. also believe a 30-year fixed rate above 6% could weigh on mortgage activity.

"If rates stabilize where they are, a 5% mortgage rate, while it sounds terribly high compared to where it was in December, it's still not that crazy in terms of filling the purchase market," Chairman, President and CEO Rajinder Singh said on the company's first-quarter earnings call. But, he added, "if the 30-year rate goes to 6%, which it could, seeing

how fast that's come to 5% or even higher, you could see an impact and utilization may not go back up."

Even rates around 4% and 5% have a "substantial impact" on peoples' ability to buy a home, Five Star Bancorp President and CEO James Beckwith said on the company's first-quarter call.

The Federal Reserve's efforts to counter inflation by raising interest rates coupled with an environment where housing demand is outpacing supply has led to the spike in rates, Compass Point analysts Giuliano Bologna and Merrill Ross wrote in a May 31 note.

Most U.S. banks report higher mortgage levels year over year

Despite the hike in rates, only five of the top 20 banks, as ranked by volume of one- to four-family mortgages, reported a year-over-year decline in their portfolios. Wells Fargo & Co., the largest lender of one- to four-family mortgage loans among U.S. banks in the first quarter, reported a 9.5% year-on-year drop in loans to \$273.97 billion.

Some U.S. banks are turning to expenses, namely through headcount reductions, to offset the decline in mortgage activity. Wells Fargo laid off an undisclosed number of mortgage staff in April.

"We expect the pressure to continue for the foreseeable future and many originators to continue cutting capacity, especially as we approach the seasonally slow Fall and Winter months," Piper Sandler analysts wrote in a May 26 note.

Top 20 US banks by 1- to 4-family mortgages, Q1'22

Company (top-level ticker)	City, state/ province	Total assets (\$B)	Total 1- to 4-family mortgages			
			(\$B)	YOY change (%)	Proportion of gross loans and leases (%)	Delinquent 1- to 4-family mortgages (%) ¹
Wells Fargo & Co. (WFC)	San Francisco, CA	1,939.71	273.97	-9.5	29.6	4.09
Bank of America Corp. (BAC)	Charlotte, NC	3,238.22	254.66	2.6	24.4	1.99
JPMorgan Chase & Co. (JPM)	New York, NY	3,954.69	243.49	1.3	21.3	2.65
Citigroup Inc. (C)	New York, NY	2,394.11	92.35	0.5	13.0	1.59
U.S. Bancorp (USB)	Minneapolis, MN	586.52	91.15	-3.2	28.3	2.87
First Republic Bank (FRC)	San Francisco, CA	187.12	84.23	24.9	59.6	0.19
PNC Financial Services Group Inc. (PNC) ²	Pittsburgh, PA	541.47	66.17	40.2	22.4	3.93
Truist Financial Corp. (TFC)	Charlotte, NC	543.98	62.24	0.0	21.2	3.39
Morgan Stanley (MS)	New York, NY	1,222.23	50.20	27.6	19.2	1.17
TD Group US Holdings LLC (TD)	Wilmington, DE	524.29	37.81	3.3	22.3	1.86
Citizens Financial Group Inc. (CFG) ³	Providence, RI	192.47	37.29	3.9	28.0	3.91
Huntington Bancshares Inc. (HBAN) ⁴	Columbus, OH	176.86	30.83	39.5	26.7	2.18
MUFG Americas Holdings Corp. (8306)	New York, NY	159.22	26.93	-1.5	33.3	0.80
KeyCorp (KEY)	Cleveland, OH	181.47	25.55	29.8	23.6	0.93
UBS Americas Holding LLC (UBSG)	New York, NY	211.14	24.75	26.7	26.2	0.08
Charles Schwab Corp. (SCHW)	Westlake, TX	680.95	23.31	41.6	19.7	0.20
Fifth Third Bancorp (FITB)	Cincinnati, OH	211.46	23.30	-9.1	19.7	2.60
Regions Financial Corp. (RF)	Birmingham, AL	164.37	23.04	-4.7	25.6	1.42
RBC US Group Holdings LLC (RY) ⁵	Toronto, Ontario	174.45	21.97	24.9	31.0	0.22
City National Bank (RY) ⁵	Los Angeles, CA	91.77	19.98	25.1	34.3	0.15
Industry aggregate⁶			2,533.91	2.8	22.3	2.40

Data compiled May 30, 2022.

Analysis includes top-tier consolidated U.S. commercial banks, savings banks, and savings and loan associations.

Data based on regulatory filings as of March 31, 2022.

Tickers based on top-level entities' home country stock exchange.

¹ Represents nonaccrual and past-due one- to four-family mortgage loans as a percentage of total one- to four-family mortgage loans.

² PNC Financial Services Group Inc. completed the acquisition of BBVA USA Bancshares Inc. on June 1, 2021.

³ Citizens Financial Group Inc. completed the acquisition of Investors Bancorp Inc. on April 6, 2022.

⁴ Huntington Bancshares Inc. completed the acquisition of TCF Financial Corp. on June 9, 2021.

⁵ RBC US Group Holdings LLC and City National Bank are both subsidiaries of Royal Bank of Canada. Ultimate parent does not file at the consolidated level.

⁶ Represents U.S. commercial banks, savings banks, and savings and loans associations. Excludes nondepository trusts and companies with a foreign banking organization charter.

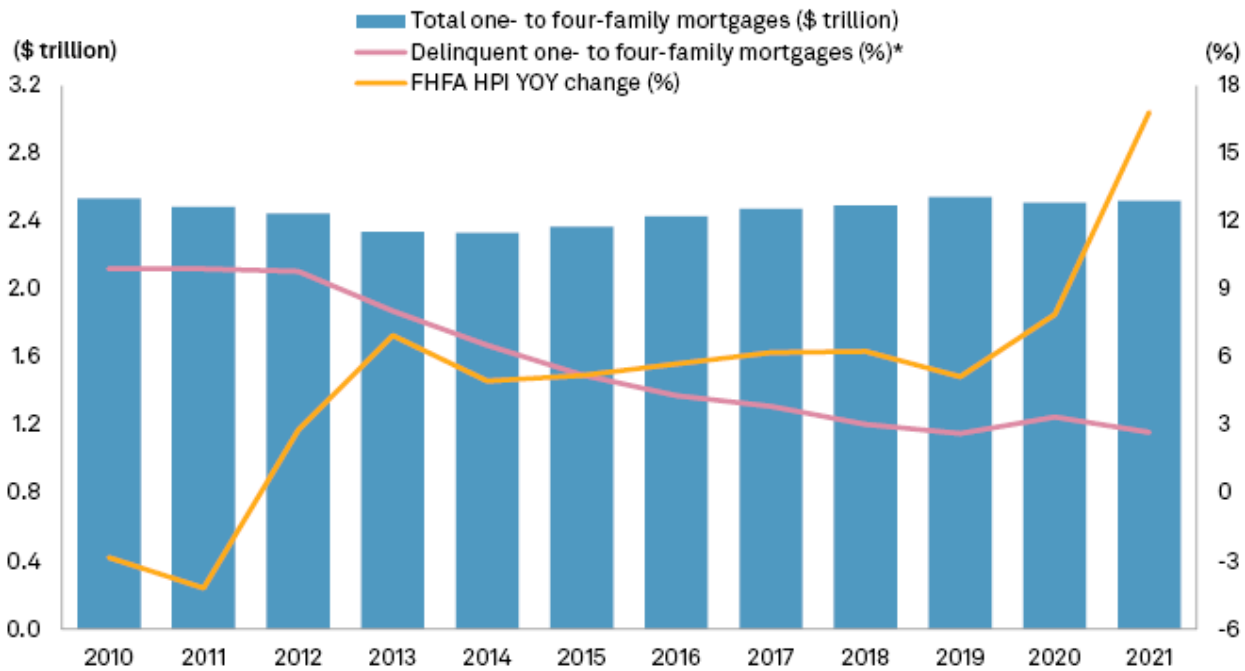
Source: S&P Global Market Intelligence

Home prices still up, delinquencies continue to fall

Home prices remained elevated in the first quarter. The Federal Housing Finance Agency House Price Index was up 18.7% year over year in the quarter, compared to being up 13.1% year over year in the first quarter of 2021.

Credit quality remained pristine in the quarter with delinquent one- to four-family mortgages climbing even lower, making up only 2.4% of the total of \$2.534 trillion in one- to four-family mortgages in the quarter.

Annual trends for 1- to 4-family mortgages, delinquencies, home prices



Data compiled May 30, 2022.

FHFA HPI = Federal Housing Finance Agency House Price Index

Mortgage data based on regulatory filings for all U.S. commercial banks, savings banks, and savings and loan associations.

FHFA HPI calculated as the average of 12 calendar months.

* Represents nonaccrual and past-due one- to four-family mortgage loans as a percentage of total one- to four-family mortgage loans.

Sources: S&P Global Market Intelligence; Federal Housing Finance Agency

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