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With mortgage lending volume down, banks pivot to other products, services

PHOTO | CONTRIBUTED

Michael Sheahan, executive vice president, chief lending of cer at Chelsea Groton Bank.

By Michelle Tuccitto Sullo

Lower demand for residential mortgage loans and refinancings has prompted Connecticut banks to focus their efforts on other products and services — such as home equity and construction loans or even commercial lending — to weather the downturn.

"It's a very cyclical business that you have to be willing to make adjustments in, based on volume," said Christopher Gorman, CEO and chairman of KeyCorp, the Ohio-based parent company of KeyBank, which has a major presence in Connecticut. "And as it happens, a lot of people that are in the mortgage business go from being in the mortgage business, to not being in the mortgage business, to coming back to the mortgage business."

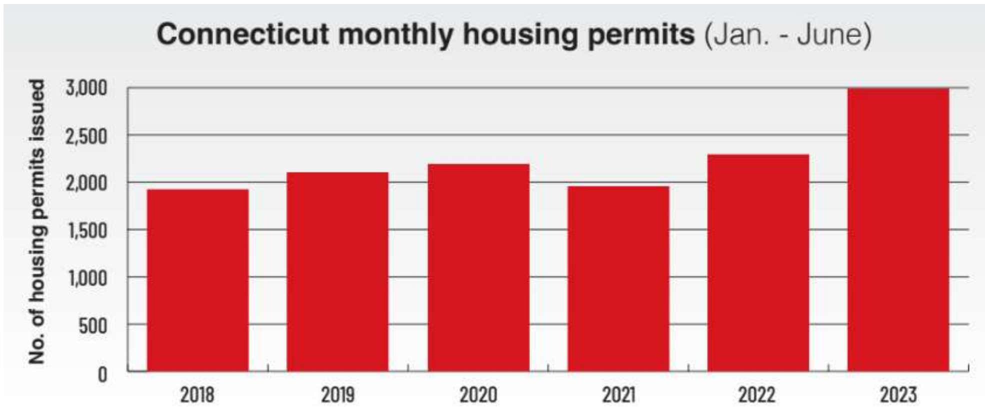
John S. Carusone, president of the Hartford-based Bank Analysis Center, said the slow down in home sales has impacted large and small banks alike throughout Connecticut.

"Banks are on the sidelines finding ways to cope with a market they have very little control over, in the short term," Carusone said. "Residential mortgage lending is a major banking product line. Depending on the future direction of the economy, the effect on mortgage lending could be significantly impacted, and hence affect the performance of banks."

Higher interest rates and rising home prices have slowed the residential real estate market. For example, Gorman, in a recent interview with the Hartford Business Journal, said KeyBank, like all lenders, has seen refinance activity "completely dry up."

However, new housing construction has made up for some of that lost business, bankers said, boosting construction loan demand.

In Connecticut, 2,981 new housing permits were issued during the first five months of this year, up 30% from the year-ago period, according to U.S. Census Bureau data. There were 1.4 million new U.S. residential construction housing starts in June 2023, which was down from a year earlier.



Source: U.S. Census Bureau/Department of Economic and Community Development

KeyBank has seen strong demand for affordable multifamily housing development, Gorman said, a major focus area for the bank.

Overall, Carusone said the banking industry is well capitalized and profitable, with strong reserves against loan losses.

However, if inflation and higher interest rates continue, it could mean a further slowdown in mortgage lending, reduced earnings and loan losses, which would force banks to redeploy or cut home loan staff, Carusone said.

Carusone said it may be premature for banks to trim mortgage staff right now, but many large lenders — including Wells Fargo, JPMorgan Chase and U.S. Bank — have already done so.

Bank pivots

Connecticut banks indicated they are focusing on other areas that are busy.

Windsor Federal, with $755 million in assets, has focused more of its attention on commercial lending, according to recently-appointed CEO Luke Kettles.

At GSB, formerly Guilford Savings Bank, residential mortgage lending represents a large part of its business, according to Lyle Fulton, executive vice president and chief lending officer.


Lyle Fulton

"Like everything in banking, you wait a few months, and it will change," said Fulton.

During the pandemic, low interest rates spurred significant first mortgage and refinance loans, while home equity volume lagged, Fulton said. Now, many people have locked in at lower rates, causing refinance business to dry up, while demand for home equity loans is up, he said.

“Our home equity volume has exploded because people don’t want to refinance their low fixed rates,” Fulton said. “They would rather take their home equity out through a home equity loan and keep their first mortgage at three percent, or sub-three percent.”

For homebuyer mortgages, the drop in volume is “strictly an inventory issue,” Fulton said.

“People are willing to pay six to seven percent if they can find a home,” he said. “The problem is, now they can’t find a home, and we are a Connecticut-based lender.”

Jason McConnell, vice president, residential lending manager with GSB, said the $1.1 billion-asset bank made a conscious effort early on to address leaner times ahead.

The bank launched a direct lending channel, the GSB Lending Center, that aims to make it easier for customers to get mortgage, home equity and other lending products primarily via phone or email, while also lowering the bank’s expenses.

Staff will still meet in person with customers if they prefer, McConnell said.

The residential real estate market isn’t impacting GSB’s staffing needs, which will actually grow in the months ahead. The bank aims to hire this fall to grow its Lending Center.

“There is a huge demand for home equity loans and lines, so we have been really focused on capturing that business from existing and prospective clients,” McConnell said.

New construction-to-permanent loans are also a focus for GSB, he said, as housing starts are at all-time highs.

GSB’s residential first mortgage portfolio was at about $387 million as of May 31, up $20 million from the end of last year, according to Fulton.

Hartford County growth

Michael Sheahan, executive vice president, chief lending officer at Chelsea Groton Bank, said his lender’s residential lending business is still doing “very well.”

“While refinance volume is down, our purchase mortgage, construction, land, and home equity volumes continue to grow in New London, Hartford and other counties throughout Connecticut and Rhode Island,” Sheahan said.

The $1.6-billion asset bank’s partnership with Federal Home Loan Banks and the Connecticut Housing Finance Authority to offer down-payment assistance grants and loans has helped boost purchase volume, he said.

While some mortgage lenders have laid off employees, Chelsea Groton Bank hasn’t, Sheahan said.

“In fact, we’ve added another experienced residential lender to our team to focus on the Glastonbury area market as our market share continues to grow in Hartford County,” Sheahan said. “We’ve maintained all of our team members that support our residential lending program throughout Connecticut and Rhode Island.”