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Sherry Fairchok

Record-setting changes in mortgages and deposits reveal signs of mounting stress on banks

Article

The news: Although the US Federal Reserve appears to be done with rate hikes—or at least, for now—the impact of its repeated adjustments is showing up in **some record-setting**

business metrics for the US financial services industry.

- Banks and credit unions are reporting **the first drop in deposits in nearly three decades, amounting to the outflow of $872 billion year-over-year,** per the latest S&P Global Markets Summary.
- **And mortgage demand is sitting near a 27-year-low, with volume falling 25.5% lower than the same week last year,** according to the Mortgage Bankers Association's seasonally adjusted index.

A slow leak in deposits: It's a sign of mounting stress on banks, due not only to rising interest rates, but also to the pressure exerted by inflation and consumers' dwindling confidence.

- During the 12-month period that ended on June 30th, **deposits fell 4.3% YoY, to $17.269 trillion.** Banks of all sizes experienced drops, but most large banks reported lower deposits compared to last year.
- 30% of the overall plunge was due to the four largest banks: **JPMorgan Chase,** whose deposits fell 2.8%, to $2.068 trillion; **Bank of America,** down 5%, to $1.888 trillion; **Wells Fargo,** down 6%, to $1.377 trillion; and **Citi**, down 0.8%, to $757.14 billion.
- The bank tracked in the report that saw the largest gain was **BMO,** whose deposits jumped 51.7%, to $202.24 billion, after it acquired **Bank of the West**.
- And the bank reporting the largest drop was **Charles Schwab**, with a 31.1% reduction in deposits, down to $304.79 billion, due largely to outflow from brokerage accounts.

Mortgages find fewer takers: Rising interest rates—coupled with rising prices due to a historically high imbalance of supply and demand—is depressing consumer demand for home lending.

It's an unusual convergence of events. An interest rate spike usually pushes down home prices, but even though more and more buyers can't afford a home, the number of homes going up for sale is so limited, prices are high for the few available.

- **Mortgage interest rates have hit a high not seen since 2000,** pushing mortgage applications 27% lower than in the same period last year.
- **Applications to refinance a mortgage fell 21% from what they were a year ago.** After the record low rates available during the early part of the pandemic and the boom in refinancing,

fewer borrowers see any upside to refinancing just now.

- The average contract interest rate for a 30-year, fixed-rate mortgage with conforming loan balances ($726,200 or less) increased to 7.41%. The rate was 6.52% one year ago.

What it means: Losing funding from deposits is making banks less willing to lend, whether for mortgages, projects, or businesses' plans to expand. The Fed has acknowledged that these tight credit conditions will "weigh on economic activity, hiring, and inflation"—but effectively, it's accepted that some of the consequences of its actions will remain uncertain. But with the economy going stronger than many had anticipated, the Fed still looks willing to gamble on another future rate hike.