JAN 12

Jenna McNamee

Wells Fargo trims down its mortgage division, sets focus on minority homeownership

Article

What's happening? Wells Fargo is scaling back its mortgage division to focus on existing customers and promote homeownership in minority communities, per CNBC.

Time to downsize: Heightened scrutiny of the mortgage market, rising interest rates, questions around long-term profitability, and a more focused effort to rebuild customer trust are the reasons Wells Fargo listed for its decision to pull back in its mortgage division.

- The bank will instead focus on serving its existing bank and wealth management mortgage customers.
- It will also invest $100 million toward its initiative to encourage minority homeownership. Additionally, the bank plans to make more mortgage officers available at branches located in minority communities.
- Wells Fargo will also shed its correspondent loan business, which purchases loans from third-party lenders, and will shutter its mortgage servicing arm through asset sales.

The move means more layoffs are in its future, though Wells Fargo executives have declined to comment on the magnitude of the cuts. Moving forward, the bank will focus on generating revenue from investment banking and credit cards. Wells Fargo is currently the third-largest mortgage lender in the US and largest mortgage servicer.

Updating its image: Wells Fargo is aggressively trying to rebuild trust and loyalty with its clients after its massive fake account scandal and a record-setting fine for what the CFPB described as illegal activities. CEO Charlie Sharf said the mortgage unit just became too large to operate while also trying to clean up its act.

- The bank recently settled a lawsuit in which it was accused of discriminating against nonwhite mortgage customers during the 2008 housing crisis.
- It also faced scrutiny from US senators after reports broke that the bank only approved 47% of Black homeowners' mortgage refinancing applications in 2020—a stark contrast from the 72% approval rate for white applicants.

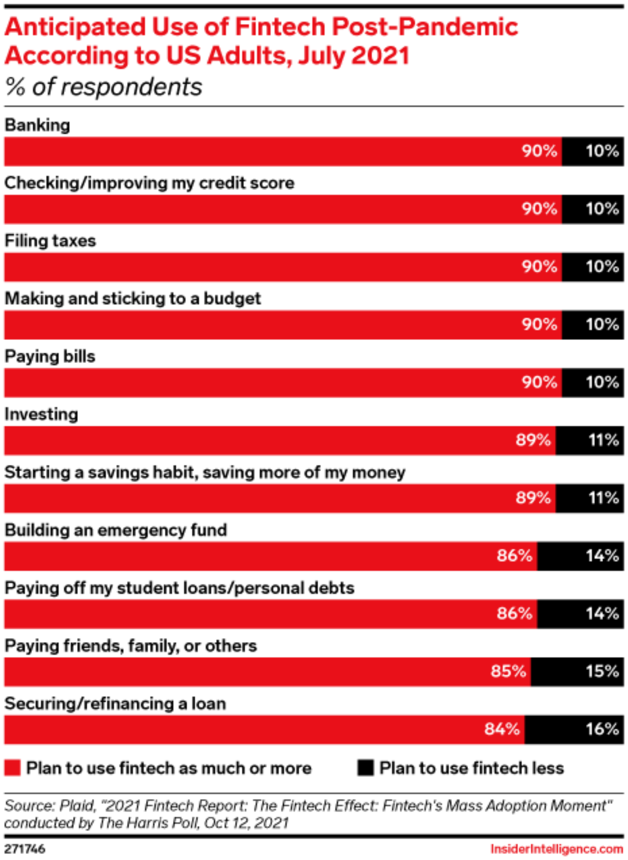
The $100 million investment in minority homeownership that the bank announced will supplement the plan it unveiled in April 2022, which allocated $210 million to the same initiative.

Fintechs take over: Wells Fargo's planned retreat from the mortgage space also highlights nonbank fintechs' success in gaining market share within that sector.

- According to Inside Mortgage Finance, these lenders hold about two-thirds of the loans in the market. **Rocket Mortgage** led the pack with $342.7 billion in mortgage originations in 2021.

But fintechs are also feeling the effects of rising interest rates and skyrocketing home prices. Buyers are fleeing the market and the fintechs that specialized in mortgage lending are now turning to layoffs and new markets.

- Rocket made cuts to its workforce in April and August last year. It also purchased personal finance app **Truebill** to broaden the way it can connect with its customers.



The big takeaway: The paring-down of Wells Fargo's mortgage business could result in a large loss of revenue. Because the bank was the leading US bank lender, it may also look like it's losing part of its identity. The emphasis on minority homeownership will provide some good will, as long as the initiative delivers measurable advances. But the bank's increased reliance on investment banking for revenue generation might spell trouble.

- Investment banking revenues fell to $15.3 billion in Q4, down over 50% from the same period in 2021, according to Dealogic.

This article originally appeared in Insider Intelligence's ***Banking Innovation Briefing****—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*