Nonbank Lenders Are Dominating the Mortgage Market

Nonbanks issued more than two-thirds of mortgages in 2020, their highest market share on record

By Orla McCaffrey, *Wall Street Journal*, June 22, 2021

Americans took out more mortgages than ever before in 2020. Most of them didn't come from banks.

Nonbank mortgage lenders in the U.S. issued 68.1% of all mortgages originated in 2020, up from 58.9% in 2019, according to industry research firm Inside Mortgage Finance. That is their highest market share on record and their biggest yearly gain since 2014.

Nonbank mortgage lenders have been gaining ground on banks for the past decade. These lenders, which don't take deposits or offer other banking services, have made up more than half of the market since 2016. Seven of the 10 biggest U.S. mortgage lenders were nonbanks at the end of 2020, according to the research firm.

The coronavirus pandemic ushered in an era of cheap money that supercharged their growth. The average rate on the 30-year mortgage fell below 3% for the first time on record last year, boosting home sales and spurring a refinancing boom. Lenders of all stripes originated a record $3.83 trillion in home loans in 2020, according to the Mortgage Bankers Association.

But banks largely sat out the boom. Still smarting from massive losses on soured mortgages during the 2008-09 financial crisis, they shunned all but the safest borrowers and pulled back from the jumbo loans that had fueled their mortgage businesses in recent years. A surge in loan demand from corporate borrowers, meanwhile, strained their balance sheets.

Nonbanks filled the gap, especially with borrowers looking to refinance. At Rocket Cos.'s Quicken Loans, the nation's largest mortgage lender, loan volume more than doubled in 2020, compared with an increase of less than 10% at runner-up Wells Fargo & Co., according to Inside Mortgage Finance.

"Earlier this decade, independent mortgage bankers were primarily gaining share in terms of the purchase business," said Mike Fratantoni, chief economist at the Mortgage Bankers Association. "But in the last several years, they've also gotten the majority of the refinance business as well. This is a continuation of that trend."

The outlook wasn't always so rosy for nonbanks. When millions of Americans signed up to postpone mortgage payments last spring, nonbank lenders struggled to cover payments due to the investors who buy the loans they originate. The Federal Housing

Finance Agency later moved to ease the cash crunch by capping payments mortgage servicers must cover for borrowers behind on their loans.

By the summer, nonbanks were lining up to go public, taking advantage of a red-hot stock market to raise cash from investors. Between July and December, eight of the 30 largest U.S. mortgage lenders—including Rocket—said they were planning initial public offerings.

Last year was a profitable one to gain market share. Low mortgage rates and shifts in where Americans work and live juiced demand for home loans, allowing lenders to choose the most qualified applicants and maintain wide profit margins.

The median gain-on-sale margin, a measure of how much lenders earn when they sell loans, rose to 3.05% in the second quarter of 2020, according to Piper Sandler Cos.

Yet lenders are preparing for mortgage demand to cool in the coming months, the result of rising interest rates that makes refinancing less attractive for a large number of borrowers. Mortgage originations are expected to fall more than 9% to $3.47 trillion in 2021, according to the Mortgage Bankers Association.

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