Community Banking Bulletin

Highlight: Decreased gains on loan sales driving drop in noninterest income

July 13, 2022

Revenue from secondary market sales of loans continues to decline, in line with the drop in reported* sales of 1-4 family residential loans across community banks.

- Noninterest income across community banking organizations[1] decreased to a two-year low at March 31, 2022. The largest driver of the decline was gains on the sale of loans, which dropped 58 percent year-over-year.
- Historically, 1-4 family residential loans have comprised a large portion of secondary market loan sales by community banks. Across the industry, residential mortgage lending among commercial banks has been challenged due to a low housing inventory, increased competition from fintech and nonbank lenders, rising interest rates, and a drop in consumer sentiment amid inflation concerns, resulting in decreased originations and refinancing activity.
- Among community banks that are required to report 1-4 family loans sold to the secondary market[2], the volume of these loan sales decreased 57 percent year-over-year as of March 31, 2022. Likewise, income associated with this activity declined 55 percent year-over-year across those community banks that reported.

Questions or comments? Please contact KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org.

Endnotes

[1] Community banking organizations are defined as having $10 billion or less in total assets.

[2] Call Report 031 and 041 filers must report residential mortgage banking activities if total originations and purchases for resale, loan sales, or quarter-end loans held for sale or trading exceed $10 million for two consecutive quarters. Call Report 051 filers must report residential mortgage banking activities if total sales or quarter-end loans held for sale or trading exceeded $10 million for the two calendar quarters preceding the current quarter.