MONEY HOUSE

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Mortgage Banking Profits Increased in 2016

Despite a **terrible** fourth quarter, independent mortgage banks and mortgage subsidiaries of chartered banks managed to have a slightly more profitable year in 2016 than they did in 2015. The Mortgage Bankers Association's (MBA's) Annual Mortgage Bankers Performance Report said those banks made an average profit of $1,346 on every loan they originated last year, compared to $1,189 per loan in 2015. MBA's report for the final quarter of the year showed profits at $575 per loan, only one-third the profit level of the previous quarter.

MBA said **94 percent** of the firms which reported data said they posted overall pre-tax net profits during 2016. Ninety-two percent reported those profits in 2015.

The **average production profit** expressed in basis points (bps), was 58 bps compared to 52 bps the previous year. In the first half of 2016, net production income averaged 61 bps, 6 bps higher than in the second half of the year. Since the inception of the Annual Performance Report in 2008, net production income by year has averaged 55 bps ($1,127 per loan).

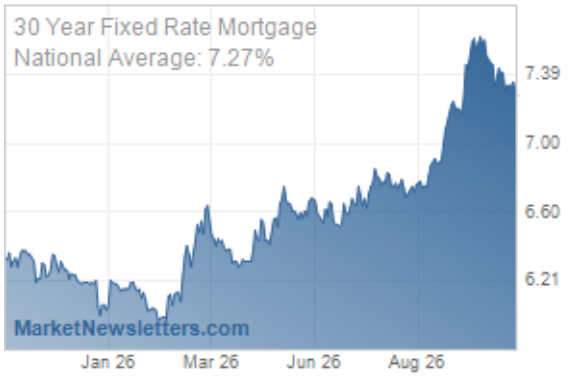
The average production per company was 11,161 loans or **$2,679 million** compared to 9,906 loans and $2,405 million in volume in 2015. Of those companies reporting financial data both years the volume was 11,881 loans ($2,859 million) in 2016, compared to 9,604 loans ($2,254 million) in 2015. For the mortgage industry as whole, MBA estimates production volume at $1.89 trillion in 2016, up from $1.68 trillion in 2015.

"Average production volume for companies in our Annual Performance Report rose in 2016, reflecting a larger industry trend of increasing volume in 2016 over 2015, based on MBA industry estimates," said Marina Walsh, MBA's Vice President of Industry Analysis.

"Average **loan balances** also rose, reaching a study-high $244,945 for first mortgages in 2016," Walsh continued. "This translated into higher revenues that reached a study-high $8,555 per loan in 2016. Yet production expenses also reached a study-high, at $7,209 per loan, and offset a portion of these revenue improvements. The net result was a slight increase in overall net production income."

"Mortgage lenders with servicing portfolios experienced **significant fluctuations** in the valuation of their mortgage servicing rights related to corresponding interest rate fluctuations during 2016. Most servicers reported net servicing financial losses in the first half of the year, followed by

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.82	+0.01
10 YR Treasury	4.9068	-0.0231
30 YR Treasury	5.2751	-0.0331

Pricing as of: 11/2 8:48AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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recoveries by the end of the year."

Other highlights from the report are:

- The purchase share of total originations, by dollar volume, decreased slightly to 62 percent in 2016, from 64 percent in 2015. For the mortgage industry as whole, MBA estimates the purchase share also decreased slightly to 52 percent in 2016, from 54 percent in 2015.
- Total production revenues (fee income, net secondary marking income and warehouse spread) were 366 bps in 2016 ($8,555 per loan), compared to 359 bps ($8,234 in 2015.)
- Total loan production expenses - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - increased to $7,209 per loan from $7,046 in 2015.
- Per loan personnel expenses increased to $4,801 year-over-year from $4,699.
- Productivity was 2.4 loans originated per production employee (sales, fulfillment and production support functions) per month compared to 2.2 the previous year.
- Net servicing financial income, which includes net servicing operational income as well as mortgage servicing right (MSR) amortization and gains and losses on MSR valuations, was $34 per loan in 2016, from $73 per loan in 2015. Most servicers posted net servicing financial losses in the first half of 2016 because of heavy MSR amortization and valuation losses, but recovered in the last quarter of the year.

Of the 280 firms that reported production, **76 percent were independent** mortgage companies and remaining 24 percent were subsidiaries and other non-depository institutions.

Our Goal is to help our Wholesale Partners grow their business.

Let our highly experienced reverse mortgage team help your company grow its HECM business.

Chris Munson

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