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EQUAL HOUSING LENDER

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Profits Plummet as Rising Rates Constrict Loan Volume

The reported **net profit per loan** reported to the Mortgage Bankers Association (MBA) by independent mortgage banks and mortgage subsidiaries of chartered banks cratered during the fourth quarter of 2016. The MBA said today the average gain on each loan originated during the fourth quarter period fell by two-thirds compared to the third quarter, down from 1,773 to $575. Production volume also fell both on a dollar and a loan count basis.

The MBA's *Quarterly Mortgage Bankers Performance Report* says the **average pre-tax production profit** was 24 basis points (bps) in the fourth quarter compared to 74 bps in the third. Since the inception of the Performance Report in the fourth quarter of 2008, net production income has averaged 53 bps.

Average **production volume** was $690 million per company in the fourth quarter of 2016, down from $764 million per company in the third quarter of 2016. The average volume by count per company was 2,811 loans, down from 3,072 loans in the previous period.

Total production revenue (fee income, net secondary marketing income and warehouse spread) decreased to 347 basis points from 365 bps in the third quarter of 2016. On a per-loan basis production revenue was $8,137 compared to $8,742 the previous quarter. Net secondary marketing income fell from 291 bps or $7,037 per loan, to 272 bps or $6,433.

Total loan production **expenses** - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - **increased to $7,562 per loan** in Q4 from $6,969 in Q3. From the third quarter of 2008 to the fourth quarter of 2016 the average was $5,900 per loan. Average personnel expenses were $5,001 per loan. up from $4,675 per loan in Q3.

Marina Walsh, MBA Vice President of Industry Analysis, said "Rapid increases in interest rates in the last two months of 2016 slowed mortgage activity in the fourth quarter, driving a significant decrease in loan production profits. "Mortgage lenders reported a combination of both lower revenues and higher expenses. On the revenue side, secondary marketing income dropped as mortgage lenders wrestled with less favorable pricing and pipeline challenges. At the same time, production expenses per loan rose as fixed costs were spread over fewer loans."

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.70	+0.01
10 YR Treasury	5.1474	+0.0061
30 YR Treasury	5.4731	+0.0049

Pricing as of: 11/15 7:41PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
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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Productivity **decreased** to 2.7 loans originated per production employee per month from 2.9 in the third quarter. Production employees include sales, fulfillment and production support functions.

The **purchase share** of total originations, by dollar volume during the quarter was 58 percent, down 2 percentage points from the prior quarter. For the mortgage industry as a whole, MBA estimates the purchase share at 49 percent in the fourth quarter of 2016. The pull-through rate (loan closings to applications) was a study-high 76.45 percent compared to the third quarter average of 73.33 percent. The **average loan balance** for first mortgages fell from the survey high $251,398 in the third quarter to $246,473.

Net servicing financial income improved to a year-to-date *gain* of $34 per loan in the fourth quarter from a **year-to-date *loss* of $122 per loan**. Walsh said, "Those mortgage lenders with servicing portfolios benefited from higher net servicing financial income in the fourth quarter due to increases in the valuation of their mortgage servicing rights, driven by the same rising interest rates. However, the reduced profitability on the production side of the business generally outweighed servicing gains."

Including all business lines, **73 percent of the firms** in the study posted pre-tax net financial profits in the fourth quarter of 2016, down from 94 percent in the third quarter of 2016.

Seventy-four percent of the 353 companies that reported production data for the fourth quarter of 2016 were independent mortgage companies and the remaining 26 percent were subsidiaries and other non-depository institutions.

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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