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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



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.02%	-0.05	0.65
15 Yr. Fixed	6.60%	-0.15	0.55
30 Yr. FHA	6.87%	0.00	0.92
30 Yr. Jumbo	7.18%	-0.03	0.54
5/1 ARM	6.45%	+0.08	0.81

Rates as of: 6/28

Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

	Value	Change
Productivity decreased to 2.7 loans originated per production employee per month from 2.9 in the third quarter.	51	+6.25%

Builder Confidence Mar

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.

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the **ONLY** objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are **NOT** mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do **NOT** have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

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