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Production Volume Drives Mortgage Profits Down

Independent mortgage banks and mortgage subsidiaries of chartered banks reported a **second straight quarter of falling profits** during the three months that ended in March. The Mortgage Bankers Association's (MBA's)*Quarterly Mortgage Bankers Performance Report*, summarizing a survey among those bankers, found they had realized a net gain of $224 on each loan they originated in the first quarter, down from $575 per loan in the fourth quarter of 2016. That latter was itself a drastic decline from $1,773 in the third quarter of last year.

The decreased profits were due to a rise in per-loan production expenses as the volume of loans declined. Banks reported average loan volume of $455 million, down from $690 million in the fourth quarter. The number of loan originations per company dropped to 1,944 from 2,811.

"The drop in overall production volume in the first quarter of 2017 resulted in the highest per-loan production expenses reported since inception of our study in the third quarter of 2008," said Marina Walsh, MBA's Vice President of Industry Analysis. "While higher production revenues mitigated a portion of the cost increase, production profitability nonetheless declined by more than half the previous quarter."

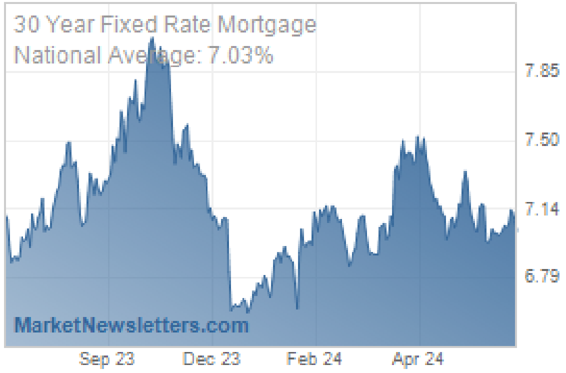
Walsh added, "For those mortgage bankers holding mortgage servicing rights (**MSR**), an increase in mortgage interest rates resulted in MSR valuation gains and helped overall profitability."

Net servicing financial income was $225 per loan in the first quarter of 2017, compared to a loss of $118 per loan in the first quarter of 2016. Like the fourth quarter of 2016, mortgage companies reported overall gains in the valuation of servicing rights.

Pre-tax production profits declined from an average net of 24 basis points (bps) in the fourth quarter to 10 bps in the first quarter, well below the average of 51 bps reported by the Performance Report beginning in the third quarter of 2008.

Total production revenue from fee income, net secondary marketing income and warehouse spread increased to 395 bps from 347 bps the previous quarter. On a per-loan basis this represented revenue of $9,111, up from $8,137. Net secondary marketing income increased to 322 basis points or $7,469 per loan from 272 bps or $6,433 per loan in the fourth quarter.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/5

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
Builder Confidence	Mar	51	+6.25%

Total loan production expenses - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - **increased to a study-high of $8,887 per loan** during the quarter, compared to $7,562 a quarter earlier. For the period from the third quarter 2008 to the present quarter, loan production expenses have averaged $5,985 per loan.

Average personnel expenses increased by $801 per loan quarter-over-quarter to $5,802, while productivity decreased to 1.7 loans originated per production employee per month. from 2.7 per month. Production employees includes sales, fulfillment and production support functions.

Including all business lines, 67 percent of the firms in the study posted pre-tax net financial profits in the first quarter of 2017, down from 73 percent in the fourth quarter of 2016.

The share of purchase mortgage originations measured by dollar volume increased to 68 percent from 58 percent the previous quarter. For the mortgage industry as a whole, MBA estimates the purchase share at 59 percent in the first quarter of 2017.

The **average loan balance for first mortgages decreased** from $246,473 in the fourth quarter of 2016 to $242,949. The average pull-through rate (loan closings to applications) was 70 percent, falling from a survey high of 76 percent in the fourth quarter of 2016.

MBA said 76 percent of the 342 companies that reported production data for the first quarter of 2017 were independent mortgage companies and the remaining 24 percent were subsidiaries and other non-depository institutions.

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard