Stephen Moye
Sales Manager/Senior Loan Officer NMLS: 268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender Licensed by the Department of Business Oversight Under the California Residential Mortgage Lending Act
CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender
1615 Murray Canyon Road #1050 San Diego, CA 92108

Office: 619-309-1678
Mobile: 619-895-8128
Fax: (619) 793-1026
stephen.moye@nafinc.com
View My Website

Mortgage Profits Plummeted in Fourth Quarter

Per loan profits of Independent mortgage banks and mortgage subsidiaries of chartered banks **fell dramatically in the fourth quarter of 2017.** The Mortgage Bankers Association (MBA) reported a net gain of $237 on each loan they originated down from $929 per loan in the third quarter of 2017. As bad as the quarter was, profitability was still higher than in the first quarter of 2017 when it dropped to $224.

"**Production profits plummeted** in the fourth quarter of 2017 compared to the third quarter of 2017," said Marina Walsh, MBA's Vice President of Industry Analysis. "Purchase volume was lower in the fourth quarter, in part due to normal seasonality. At the same time, there was no substantial pickup in refinancings. While cash-out refinancings grew incrementally to 16 percent of overall production volume in the fourth quarter, from 14 percent the previous quarter, rate-term refinancings continued to be less than 13 percent of overall production volume, on par with the previous two quarters."

"The end result was lower overall volume and production expenses that grew to $8,475 per loan - the second highest level reported since the inception of our study in 2008. Production revenues per loan also dropped, despite the average loan balance reaching a study-high," Walsh continued.

Banks reported an **average production volume of $505 million**, down from $569 million per company in the third quarter of 2017, with banks averaging 2,059 loans each. This was a decline from 2,341 loans from the previous quarter. For the mortgage industry as a whole, MBA estimates for production volume in the fourth quarter of 2017 were lower compared to the previous quarter.

Total **production revenue** (fee income, net secondary marking income and warehouse spread) decreased to 362 basis points from 375 bps in the third quarter and per-loan production revenues fell from $8,990 to $8,712. The pre-tax production profit averaged 9 basis points (bps), down from an average of 40 bps in the third quarter of 2017.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%

		Value	Change
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Net **secondary marketing income** decreased to 291 basis points in the fourth quarter of 2017, down from 298 bps in the third quarter of 2017. On a per-loan basis, net secondary marketing income decreased to $7,037 per loan in the fourth quarter of 2017 from $7,181 per loan in the third quarter of 2017. Net servicing financial income was $33 per loan compared to $79 the previous quarter.

Loan **production expenses -** commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - increased to $8,475 per loan from $8,060. The average of production expenses reported to MBA over the period from Q3 2008 to the fourth quarter of 2017 was $6,153.

The personal costs per loan during the quarter averaged $5,560. In the third quarter of 2017 the number was $5,279 per loan.

Loans originated per production employee decreased slightly to 2.0 loans per month from 2.1. Production employees includes sales, fulfillment and production support functions.

The purchase share of total originations, by dollar volume, was 71 percent, down from 74 percent in the third quarter of 2017. For the entire industry MBA estimates the purchase share during the quarter at 63 percent.

The average loan balance for first mortgages reached a study high of $254,290, up from $251,109 in the third quarter of 2017. The pull-through rate (loan closings to applications) also increased, rising from 73 percent in the third quarter to 76 percent.

Including all business lines, 56 percent of the firms in the study posted **pre-tax net financial profits** in the quarter of 2017, **down from 77 percent in the previous period.**

MBA's quarterly Mortgage Bankers Performance Report received production data from 329 company in the fourth quarter. Seventy-seven percent were independent mortgage companies and the remaining 23 percent were subsidiaries and other non-depository institutions.

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