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Lender Production Profits Down 60% Thanks to TRID

The new Truth-in-Lending disclosure (TRID) rule is being blamed for a **sharp decline** in the per loan profitability of mortgage lenders. The Mortgage Bankers Association said that its fourth quarter survey of independent mortgage banks and mortgage subsidiaries of chartered banks found a drop in profitability from $1,238 per loan in the third quarter of 2015 to $493 in the fourth. TRID, the so-called "Know Before You Owe" rule went into effect for loans for which applications were received on or after October 3, 2015.

"Production profits dropped by **over sixty percent** in the fourth quarter of 2015 compared to the third quarter," said Marina Walsh, MBA's Vice President of Industry Analysis. "With the *Know Before You Owe* (TRID) rule going into effect last October 3rd and declining production volume compared to the third quarter of 2015, mortgage bankers saw their total loan production expenses climb to $7,747 per loan, from $7,080 per loan in the third quarter."

Walsh added, "The fourth quarter marked th**e second highest level of production expenses** per loan since the inception of our report in the third quarter of 2008. However, the average production volume per company was nearly double the first quarter of 2014, when production expenses reached a study-high of $8,025 per loan. The increase in total production expenses per loan in the fourth quarter of 2015 **cannot** be explained solely by volume fluctuations."

MBA's *Quarterly Mortgage Bankers Performance Report* found loan production averaged 2,265 loans per company in the fourth quarter compared to 2,609 loans in the third quarter. In the first quarter of 2014 when the per-loan production expenses referred to by Walsh were at a study-high, the average volume by count was 1,238 loans per company. Since the inception of the *Performance Report* in the third quarter of 2008, the quarterly production count has averaged 1,491 loans.

By dollar, the average production volume was **$538 million**, down from $614 million per company the previous quarter of 2015. Referring again back to the first quarter of 2014, the average production volume was $274 million per company. Over the history of the *Performance Report* production volume per company has averaged $332 million.

MBA's also found that productivity decreased to 2.4 loans originated per production employee per month in the fourth quarter of 2015 compared to

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%

2.5 in the third quarter.

		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 $7,747 per loan** in the fourth quarter of 2015, from $7,080 in the third quarter of 2015. Personnel expenses averaged $5,131 per loan, up from $4,674 per loan in the third quarter.

The **"net cost to originate" was $6,163** per loan compared to $5,549 the prior quarter. The "net cost to originate" includes all production operating expenses and commissions, minus all fee income, but excludes secondary marketing gains, capitalized servicing, servicing released premiums, and warehouse interest spread. Total production revenue (fee income, secondary marking income and warehouse spread) remained unchanged between quarters at 362 basis points (bps).

Including all business lines, **72 percent** of the firms in the study posted pre-tax net financial profits in the fourth quarter of 2015, **down from 86** percent in the third quarter of 2015. The average pre-tax production profit was 22 (bps) in the fourth quarter, compared to an average net production profit of 55 bps in the third quarter of 2015. Since the inception of the Performance Report in the third quarter of 2008, net production income has averaged 53 bps.

The average balance of a first mortgage originated during the quarter was **$238,481**, up from $238,246 the previous quarter. The **jumbo** share of first mortgages rose 25 bps to 9.34 percent of all mortgages. The share of purchase originations fell from 70 percent in the third quarter to 66 percent in the fourth quarter. MBA estimates that for the industry as a whole refinances represented 53 percent of mortgage loans.

The Performance Report is derived from a survey of independent mortgage companies, bank subsidiaries and other non-depository institutions. Seventy-three percent of the 334 companies that reported production data for the fourth quarter of 2015 were independent mortgage companies and the remaining 27 percent were subsidiaries and other non-depository institutions.

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

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