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Mortgage Lending Profitable in 2015 Despite Weaker 2nd Half

Year-end figures released on Tuesday by the Mortgage Bankers Association (MBA) shows that profits in at least one sector of mortgage lending **increased substantially** in 2015 compared to 2014. Those profits, however trended down as the year wore on.

According to MBA's *Annual Mortgage Bankers Performance Report*, independent mortgage banks and mortgage subsidiaries of chartered banks made an **average profit of $1,189** on each loan they originated in 2015, up from $747 per loan in 2014. Ninety-two percent of firms responding to the MBA survey posted pre-tax net profits in 2015, including all business lines while 82 percent reported such profits in 2014. However, in the first half of 2015 93 percent reported profits while **only 83 percent** did so in the second half of the year.

The **average production profit** (net production income) was 52 basis points (bps) in 2015 compared to 34 bps in 2014. The income averaged 65 bps in the first half of last year then fell to 39 in the second half.

"Despite a drop in profits in the second half of the year compared to the first half, full-year 2015 net production profits were 52 basis points, 18 basis points higher year over year, with higher production volume," said Marina Walsh. MBA's Vice President of Industry Analysis. "Profits in 2015 were **just below the annual average** of 55 basis points since the inception of the Performance Report in 2008. However, because of larger loan balances, per-loan profits were at their third highest levels since 2008. Average loan balances for this sample grew 7 percent from 2014 to 2015 and have grown 22 percent since 2008."

There were 276 companies reporting production data to MBA for the full year. Seventy-two percent were **independent mortgage companies** and the remainder were subsidiaries and other non-depository institutions.

The average production volume was $2.40 billion or 9,906 loans compared to $1.57 billion or 6,779 loans per company in 2014. Among those companies reporting for both years, average production volume increased by 48 percent to $2.48 billion (10,183 loans) from $1.68 billion (7,243 loans) in 2014. The size of an average loan increased 7 percent to $239,265 from $223,108 the previous year.

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%

		Value	Change
Builder Confidence	Mar	51	+6.25%

Total loan production expenses - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - rose slightly year-over-year, from $6,950 to **$7,046 per loan**. In the first half of 2015, total production expenses averaged $6,893 per loan, then rose to $7,272 per loan in the second half of 2015.

Personnel expenses were an average of $4,699 per loan, up from $4,500 in 2014. There were 2.20 loans originated per production employee per month in 2015, compared to 2.05 in 2014.

The "**net cost to originate**" including all production operating expenses and commissions, minus all fee income, but excluding secondary marketing gains, capitalized servicing, servicing released premiums, and warehouse interest spread. was **$5,567 per loan** compared to $5,200 the year before. Secondary marketing income plus origination fees rose to 330 bps from 321 bps the previous year.

The purchase share of total originations, by dollar volume, decreased to 64 percent in 2015, from 71 percent in 2014. For the mortgage industry as whole, MBA estimates the purchase share dropped from 60 percent in 2014 to 54 percent last year.

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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