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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	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%

Productivity **decreased** to 2.7 loans originated per production employee per month from 2.9 in the third quarter. 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.

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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