HOUSING CONNECTION

Mortgage and Real Estate News That Matters

Loan Originators Posted Record Profits in Q2

While servicing income was down, independent mortgage banks (IMBs) and mortgage subsidiaries of chartered banks had a **very profitable second quarter.** They reported an average net gain of $4,548 on each loan they originated, up from a reported gain of $1,600 per loan in the first quarter of 2020, according to the Mortgage Bankers Association's (MBA) newly released *Quarterly Mortgage Bankers Performance Report.*

"Fueled by a surge in borrower demand and record-low mortgage rates, mortgage production profits in the second quarter reached the highest level since the inception of MBA's report in 2008," said Marina Walsh, MBA's Vice President of Industry Analysis. "Production volume averaged over $1 billion per company, and there was an ideal combination of higher revenues and lower costs. Revenues climbed by 57 basis points (bps) from the first quarter, while expenses improved by $844 per loan. Productivity also increased, reaching levels not seen since 2012."

Added Walsh, "Servicing profitability did take a hit last quarter. Mortgage servicing right (MSR) markdowns and amortization continued, and there was a loss of servicing income from elevated default activity. Despite these servicing losses, 96 percent of firms in the report posted overall profitability for the second quarter."

Non-annualized net income from servicing was a **loss of $68 per loan, compared to a loss of $171 per loan in the first quarter.** Servicing operating income, which excludes MSR amortization, gains/loss in the valuation of servicing rights net of hedging gains/losses and gains/losses on the bulk sale of MSRs, was $23 per loan in the second quarter, down from $52 per loan in the first quarter.

Total production revenue (including fee income, net secondary marking income and warehouse spread) increased to 429 bps from 362 bps in the first quarter. Production revenues increased to $11,686 per loan from $9,582 per loan. Net secondary marketing income accounted for 341 bps of production revenue or $9355 per loan compared to 283 bps and $7,548 in the first quarter.

Average production volume was $1.02 billion per company, up from $728 million per company the prior period. The average loan count per company increased to 3,631 loans from 2,654 loans in the first quarter. Productivity increased to 3.5 loans originated per production employee per month, up from 2.7 loans per month in the prior period. Production employees includes sales, fulfillment, and production support functions.

Total loan production expenses - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - **decreased to $7,138 per loan from $7,982 per loan** in the first quarter. From the third quarter of 2008 to last quarter, loan production expenses have averaged $6,548 per loan. Personnel expenses averaged $4,992 compared to $5,345 per loan in Q1.

The average pre-tax production profit was 167 bps in the second quarter, up from an average net production profit of 61 bps in the first quarter of 2020.

Including all business lines (both production and servicing), **96 percent of the firms** in the study **posted pre-tax net financial profits** in the second quarter, up from 78 percent in the first quarter.

Jason Wood

Mortgage Advisor & VA Loan Specialist, VA Loan Guy

www.valoanguyusa.com

P: (760) 350-3989

M: (760) 217-0820

2714 Loker Ave. W.
Carlsbad CA 92010___
317293

Purchase mortgages had a 39 percent share of total originations by dollar volume, down from 52 percent in the first quarter. For the mortgage industry as a whole, MBA estimates the purchase share was at 37 percent during the second quarter. The average pull-through rate (loan closings to applications) was 71 percent, an increase of 4 percentage points quarter-over-quarter.

The average loan balance for first mortgages increased to a new study high of $282,309. The balance averaged $276,291 in the first quarter.

MBA's *Mortgage Bankers Performance Report* is derived from a survey covering 348 mortgage originating companies. Eighty-two percent of the respondents were independent mortgage companies, and the remaining 19 percent were subsidiaries and other non-depository institutions.