HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Mortgage Profits Decline but Remain Close to Record Levels

Mortgage originators' profits remained strong in the fourth quarter of 2020, although they were down considerably from the previous period. The Mortgage Bankers Association's (MBA's) *Mortgage Bankers Performance Report* says that independent mortgage banks (IMBs) and mortgage subsidiaries of chartered banks reported a net gain of $3,738 on each loan they originated during the quarter. In Q3 their reported profits were $5,535 per loan.

The **average pre-tax production profit was 137 basis points** (bps) on an average loan size of $287,131 (a record high) compared to the third quarter profit of 203 basis points on an average origination balance of $282,659. In the fourth quarter of 2019 the pre-tax profit was 46 basis points. MBA puts the average pre-tax profit, from the third quarter of 2008 to the most recent quarter, at 53 basis points.

Total production revenue (fee income, net secondary marketing income and warehouse spread) decreased to 421 bps or $11,676 per loan, from 475 bps in the third quarter or $12,987 per loan. Net secondary marketing income decreased to 346 bps or $9,655 per loan from 394 bps or $10,883 per loan.

Total loan production expenses - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - increased to $7,938 per loan in the fourth quarter, from $7,452 in the third quarter. Personnel expenses grew to an average of $5,426 per loan from $5,124 per loan the previous quarter. From the third quarter of 2008 to last quarter, loan production expenses have averaged $6,594 per loan.

"Driven by strong borrower demand and a study-high in average loan balances, **production volume for independent mortgage companies reached unprecedented heights**, averaging close to $1.5 billion per company in the fourth quarter of 2020. Net production profits were at their third-highest levels, surpassed only by last year's second and third quarter," said Marina Walsh, MBA's Vice President of Industry Analysis.

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Added Walsh, "While production profits were still incredibly strong in the fourth quarter, **secondary marketing gains declined, resulting in an overall drop in production revenue**. Also, production expenses increased for the second straight quarter, despite higher volume that historically reduces per-loan costs. Expenses rose by almost $500 per loan from the previous quarter, as personnel costs increased across sales, fulfillment, production support, and corporate overhead."

Net financial income from servicing in the fourth quarter (not annualized) was $5 per loan, compared to a loss of $30 per loan in the third 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 $50 per loan in the fourth quarter, up from $26 per loan in the third quarter.

Average production volume per company totaled $1.47 billion in the fourth quarter, compared to $1.34 billion the prior period. This was an average of 5,049 loans originated, up from 4,732 loans quarter-over-quarter. Per production employee productivity was 4.2 loans per month, down from 4.3 per month in the third quarter. Production employees include sales, fulfillment, and production support functions. The average pull-through rate (loan closings to applications) rose from 72 percent in Q3 to 78 percent.

The purchase share of total originations, by dollar volume, decreased to 43 percent from 46 percent in the third quarter. **MBA estimates the purchase share industry wide was 36 percent.**

Eighty-three percent of the 366 companies that reported production data for the fourth quarter report were independent mortgage companies, and the remaining 17 percent were subsidiaries and other non-depository institutions. Including all business lines (both production and servicing), 95 percent of the firms in the study posted pre-tax net financial profits in the fourth quarter, down from 99 percent in the third quarter.