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Mortgage Banks Report 2020 Financials Shattered Last Years Records

While most of us couldn't wait for 2020 to be over, it turns out to have been a superlative year for mortgage originators. The Mortgage Bankers Association's (MBA's) annual Mortgage Bankers Performance Report shows the profit independent mortgage banks and mortgage subsidiaries of chartered banks made on each loan they originated was **nearly three times their profit in 2019.**

Bankers made an average of $4,202 on each loan originated in 2020, up from $1,470 in 2019. While servicing profits were down, production profits more than compensated. Ninety-nine percent of the firms posted overall pre-tax net financial profits in 2020, compared to 92 percent in 2019 and only 69 percent in 2018.

In basis points (bps), the average production profit (net production income) was 157 bps compared to 58 bps in 2019. In the first half of the year, net production income averaged 131 bps basis points, then rose to 174 bps points in the second half. Since the inception of the Annual Performance Report in 2008, net production income by year has averaged 58 bps ($1,299 per loan).

"**2020 was a banner year for the mortgage industry, despite the COVID-19 global health crisis** essentially shutting down the U.S. economy in March and forcing personnel into remote work environments," said Marina Walsh, MBA's Vice President of Industry Analysis. "A surge in housing and mortgage demand, record-low mortgage rates, and widening credit spreads translated into soaring net production profits that reached their highest levels since the inception of MBA's annual report in 2008."

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Walsh noted that in an unusual twist, the driver of production profitability in 2020 was production revenue, led by strong secondary marketing gains. Historically, production expenses drop when volume increases, but per-loan production expenses went up in 2020, as companies offered signing bonuses, incentives, overtime, and other compensation to address capacity constraints and meet mortgage demand. Furthermore, rising loan balances meant hefty sales commissions, often earned based on a percentage of the loan amount.

Total production revenues (fee income, net secondary marking income and warehouse spread) were 434 bps in 2020, up from 356 bps in 2019. On a per-loan basis, production revenues were $11,780 per loan in 2020, up from $9,004 per loan in 2019. Total loan production expenses - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - increased to $7,578 per loan from $7,535 in 2019. Personnel expenses averaged $5,272 compared to $5,094 per loan the prior year.

Net servicing income, which includes net servicing operational income, as well as mortgage servicing right (MSR) amortization and gains and losses on MSR valuations, was at a loss of $176 per loan. In 2019 it was $116 per loan in 2019 loss.

"On the servicing side of the business, heavy prepayments, combined with elevated default and forbearance activity, contributed to a **loss of servicing income.** Valuation markdowns on MSRs and servicing amortization resulted in heavy hits to the overall servicing bottom line, especially for those servicers that did not hedge their MSRs," said Walsh.

Added Walsh, "In early 2021, we are already seeing declines in pipeline volume - particularly refinance volume - as mortgage rates have risen in the first quarter. Also, secondary marketing income has dropped from last year's highs, as credit spreads have tightened. Mortgage companies that can adjust quickly to changing market conditions and are able to harness still robust purchase demand are best poised for a successful 2021."

Average production volume was $4.5 billion (16,198 loans) per company, up from $2.7 billion (10,411 loans) per company the prior year. Among repeater companies the average production volume rose to $4.4 billion (15,669 loans) from $2.5 billion (9,430 loans) in 2019. For the mortgage industry as whole, MBA estimates production volume at $3.83 trillion for the year, the highest annual volume ever reported, up from $2.25 trillion in 2019. Productivity was 3.3 loans originated per production employee per month, one more loan per employee than a year earlier. Production employees include sales, fulfillment, and production support functions.

Refinancing accounted for 55 percent of originations compared to 34 percent the prior year. MBA estimates that the refinancing share for the entire industry increased to 63 percent from 46 percent in 2019.

The average loan balance for first mortgages rose for the 11th straight year, reaching a study-high of $278,725 from $266,533 in 2019.

Of the 261 firms that reported production information 84 percent were independent mortgage companies and remaining 16 percent were subsidiaries and other non-depository institutions.